Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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)

Registrant's telephone number, including area code (213) 673-7700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $1.00 par value	New York Stock Exchange

No securities are registered pursuant to Section 12(g) of the Act

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No ý

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 such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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.

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

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

As of June 30, 2010, the aggregate market value of the registrant's common stock ("Common Stock") held by non-affiliates of the registrant was approximately $2,340,261,042 based on the June 30, 2010 closing sale price of Common Stock of $51.23 per share as reported on the New York Stock Exchange.

As of January 31, 2011, there were 52,874,073 shares of Common Stock outstanding (including unvested restricted shares).

Documents Incorporated by Reference

The information required to be disclosed pursuant to Part III of this report either shall be (i) deemed to be incorporated by reference from selected portions of City National Corporation's definitive proxy statement for the 2010 annual meeting of stockholders, if such proxy statement is filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business

General

City National Corporation (the "Corporation"), a Delaware corporation organized in 1968, is a bank holding company and a financial holding company under the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "GLB Act"). The Corporation provides a wide range of banking, investing and trust services to its clients through its wholly-owned banking subsidiary, City National Bank (the "Bank" and together with the Corporation, its subsidiaries and its asset management affiliates the "Company"). The Bank, which has conducted business since 1954, is a national banking association headquartered in Los Angeles, California and operating through 76 offices, including 17 full-service regional centers, in Southern California, the San Francisco Bay area, Nevada and New York City. As of December 31, 2010, the Corporation had seven consolidated asset management affiliates in which it held a majority ownership interest and a noncontrolling interest in two other firms. The Corporation also had two unconsolidated subsidiaries, Business Bancorp Capital Trust I and City National Capital Trust I, as of December 31, 2010. At year-end 2010, the Company had consolidated total assets of $21.35 billion, total loan balances of $13.18 billion, and assets under management or administration (excluding the two unconsolidated asset managers) of $58.47 billion. The Company focuses on providing affluent individuals and entrepreneurs, their businesses and their families with complete financial solutions. The organization's mission is to provide this banking and financial experience through an uncommon dedication to extraordinary service, proactive advice and total financial solutions.

On February 28, 2007, the Company completed the acquisition of Business Bank Corporation ("BBC"), the parent of Business Bank of Nevada ("BBNV") and an unconsolidated subsidiary, Business Bancorp Capital Trust I, in a cash and stock transaction valued at $167 million. BBNV operated as a wholly owned subsidiary of City National Corporation until after the close of business on April 30, 2007, at which time it was merged into the Bank.

On May 1, 2007, the Corporation completed the acquisition of Lydian Wealth Management in an all-cash transaction. The wealth and investment advisory firm is headquartered in Rockville, Maryland and manages or advises on client assets totaling $14.58 billion as of December 31, 2010. Lydian Wealth Management changed its name to Convergent Wealth Advisors and became a subsidiary of Convergent Capital Management LLC, the Chicago-based asset management holding company that the Company acquired in 2003.

On July 21, 2009, the Company acquired an approximate 57 percent majority interest in Lee Munder Capital Group, LLC ("LMCG"), a Boston-based investment firm that manages assets for corporations, pensions, endowments and affluent households. LMCG had approximately $3.36 billion of assets under management at the date of acquisition and manages or advises on client assets totaling $4.93 billion as of December 31, 2010. LMCG was merged with Independence Investments, a Boston-based institutional asset management firm in which the Company held a majority interest. The combined entity is the Company's primary institutional asset management affiliate, with more than $4 billion of assets under management at acquisition date. It is operated under the Lee Munder Capital Group name and as an affiliate of Convergent Capital Management LLC.

On December 18, 2009, the Company acquired the banking operations of Imperial Capital Bank ("ICB") in a purchase and assumption agreement with the Federal Deposit Insurance Corporation ("FDIC"). Excluding the effects of acquisition accounting adjustments, the Company acquired approximately $3.26 billion in assets, $2.38 billion in loans and $2.08 billion in deposits. 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

Table of Contents

adjustments, the Bank acquired approximately $318.6 million in assets and assumed $264.2 million in liabilities. 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. In connection with each of the ICB, FPB and SWB acquisitions, the Company entered into a loss sharing agreements with the FDIC with respect to acquired loans ("covered loans") and other real estate owned ("covered other real estate owned" or "covered OREO") (collectively, "covered assets").

Refer to Note 3, *Business Combinations*, of the Notes to Consolidated Financial Statements for further details regarding these acquisitions.

On November 21, 2008, the Corporation entered into a letter agreement with the United States Department of the Treasury ("Treasury") pursuant to which the Corporation agreed to issue and sell 400,000 shares of the Corporation's Fixed Rate Cumulative Perpetual Preferred Stock, Series B, par value $1.00 per share ("Series B Preferred Stock") and a warrant to purchase 1,128,668 shares of the Corporation's common stock, par value $1.00 per share, at an exercise price of $53.16 per share, for an aggregate purchase price of $400 million in cash. On December 30, 2009, the Corporation repurchased $200 million or 200,000 shares of the Series B Preferred Stock that it had originally sold to Treasury, and on March 3, 2010, the Corporation repurchased the remaining $200 million or 200,000 shares of Series B Preferred stock from Treasury. In April 2010, the Corporation repurchased the warrant in full for $18.5 million. See below under "Supervision and Regulation" and "Management's Discussion and Analysis" for further details regarding this investment.

The Company has three reportable segments, Commercial and Private Banking, Wealth Management, and Other. All investment advisory affiliates and the Bank's Wealth Management Services are included in the Wealth Management segment. All other subsidiaries, the unallocated portion of corporate departments and inter-segment eliminations are included in the Other segment. Information about the Company's segments is provided in Note 22 of the Notes to Consolidated Financial Statements as well as in the "Management's Discussion and Analysis" beginning on page 40 of this report. In addition, the following information is provided to assist the reader in understanding the Company's business segments:

The Bank's principal client base consists of small to mid-sized businesses, entrepreneurs, professionals, and affluent individuals. The Bank serves its clients through relationship banking. The Bank's value proposition is to provide the ultimate banking experience through depth of expertise, breadth of resources, focus and location, dedication to complete solutions, a relationship banking model and an integrated team approach. Through the use of private and commercial banking teams, product specialists and investment advisors, the Bank facilitates the use by the client, where appropriate, of multiple services and products offered by the Company. The Company offers a broad range of lending, deposit, cash management, international banking, equipment financing, and other products and services. The Company also lends, invests, and provides services in accordance with its Community Reinvestment Act ("CRA") commitments.

The Bank's wealth management division and the Corporation's asset management subsidiaries make available the following investment advisory and wealth management resources and expertise to the Company's clients:

- investment management and advisory services and brokerage services, including portfolio management, securities trading and asset management;
- personal and business trust and investment services, including employee benefit trust services, 401(k) and defined benefit plans; and
- estate and financial planning and custodial services.

Table of Contents

The Bank also advises and makes available mutual funds under the name of CNI Charter Funds. The Corporation's asset management subsidiaries and the Bank's wealth management division provide both proprietary and nonproprietary products to offer a full spectrum of asset classes and investment styles, including fixed-income instruments, mutual funds, domestic and international equities and alternative investments, such as hedge funds. Investment services are provided to institutional as well as individual clients.

At December 31, 2010, the Company had 3,178 full-time equivalent employees.

Competition

There is significant competition among commercial banks and other financial institutions in the Company's market areas. California, New York and Nevada are highly competitive environments for banking and other financial organizations providing private and business banking and wealth management services. The Bank faces competitive credit and pricing pressure as it competes with other banks and financial organizations. The Company's performance is also significantly influenced by California's economy. As a result of the GLB Act, the Company also competes with other providers of financial services such as money market mutual funds, securities firms, credit unions, insurance companies and other financial services companies. Furthermore, interstate banking legislation has promoted more intense competition by eroding the geographic constraints on the financial services industry.

Our ability to compete effectively is due to our provision of personalized services resulting from management's knowledge and awareness of its clients' needs and its market areas. We believe this relationship banking approach and knowledge provide a business advantage in providing high client satisfaction and serving the small to mid-sized businesses, entrepreneurs, professionals and other affluent individuals that comprise the Company's client base. Our ability to compete also depends on our ability to continue to attract and retain our senior management and other key colleagues. Further, our ability to compete depends in part on our ability to continue to develop and market new and innovative products and services and to adopt or develop new technologies that differentiate our products and services.

Economic Conditions, Government Policies, Legislation, and Regulation

The Company's earnings and profitability, like most financial institutions, are highly sensitive to general business and economic conditions. These conditions include the yield curve, inflation, available money supply, the value of the U.S. dollar as compared to foreign currencies, fluctuations in both debt and equity markets, and the strength of the U.S. economy and the local economies in which we conduct business. The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the States of California, Nevada, and New York and in the United States as a whole. The Company is subject to the effects of the economic downturn which has affected our market in the last year. A continued decline in commercial real estate and home values in the Company's markets could have a further negative effect on the results of operations.

In general, the difference between the interest rates paid by the Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on its interest-earning assets, such as loans extended to its clients and securities held in its investment portfolio, comprise the major portion of the Company's earnings. These rates are highly sensitive to many factors that are beyond the Company's control, such as inflation, recession, and unemployment. Energy and commodity prices and the value of the dollar are additional primary sources of risk and

Table of Contents

volatility. The impact that future changes in domestic and foreign economic conditions might have on the Company cannot be predicted. See Item 1A Risk Factors.

The Company's business and earnings are affected by the monetary and fiscal policies of the federal government and its agencies, particularly the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Federal Reserve regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the Federal Reserve are its open-market operations in U.S. Government securities, including adjusting the required level of reserves for depository institutions subject to its reserve requirements, and varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest-earning assets and paid on interest-bearing liabilities. Changes in the policies of the Federal Reserve may have an effect on the Company's business, results of operations and financial condition.

Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies, and other financial institutions and financial services providers are frequently introduced in the U.S. Congress, in the state legislatures, and before various regulatory agencies. The likelihood and timing of any proposals or legislation and the impact they may have on the Company cannot be determined at this time.

Supervision and Regulation

General

The Corporation, the Bank and the Corporation's non-banking subsidiaries are subject to extensive regulation under both federal and state law. This regulation is intended primarily for the protection of depositors, the deposit insurance fund, and the banking system as a whole, and not for the protection of shareholders of the Corporation. Set forth below is a summary description of the significant laws and regulations applicable to the Corporation and the Bank. The description is qualified in its entirety by reference to the applicable laws and regulations.

Regulatory Agencies

The Corporation is a legal entity separate and distinct from the Bank and its other subsidiaries. As a financial holding company and a bank holding company, the Corporation is regulated under the Bank Holding Company Act of 1956 (the "BHC Act"), and is subject to supervision, regulation and inspection by the Federal Reserve. The Corporation is also under the jurisdiction of the Securities and Exchange Commission ("SEC") and is subject to the disclosure and regulatory requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934, each administered by the SEC. The Corporation is listed on the New York Stock Exchange ("NYSE") under the trading symbol "CYN" and is subject to the rules of the NYSE for listed companies.

The Bank, as a national banking association, is subject to broad federal regulation and oversight extending to all its operations by the Office of the Comptroller of the Currency ("OCC"), its primary regulator, and also by the Federal Reserve and the FDIC.

The Corporation's non-bank subsidiaries are also subject to regulation by the Federal Reserve and other federal and state agencies, including for those non-bank subsidiaries that are investment advisors, the SEC under the Investment Advisors Act of 1940. City National Securities, Inc. is regulated by the SEC, the Financial Industry Regulatory Authority and state securities regulators.

Table of Contents

The Corporation

The Corporation is a bank holding company and a financial holding company. In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. As a result of the GLB Act, which amended the BHC Act, bank holding companies that are financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve in consultation with the OCC) or (ii) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as determined solely by the Federal Reserve). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and agency, and making merchant banking investments.

Currently, if a bank holding company seeks to engage in the broader range of activities that are permitted under the BHC Act for financial holding companies, (i) all of its depository institution subsidiaries must be "well capitalized" and "well managed" and (ii) it must file a declaration with the Federal Reserve that it elects to be a financial holding company. A depository institution subsidiary is considered to be "well capitalized" if it satisfies the requirements for this status discussed in the section captioned "Capital Adequacy and Prompt Corrective Action," included elsewhere in this item. A depository institution subsidiary is considered "well managed" if it received a composite rating and management rating of at least "satisfactory" in its most recent examination. In addition, the subsidiary depository institution must have received a rating of at least "satisfactory" in its most recent examination under the Community Reinvestment Act. (See the section captioned "Community Reinvestment Act" included elsewhere in this item.) Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), effective July 21, 2011, bank holding companies, as well as their depository institution subsidiaries, will also be required to be "well capitalized" and "well managed" in order to engage in the broader range of activities that are permitted under the BHC Act for financial holding companies.

Financial holding companies that do not continue to meet all of the requirements for such status will, depending on which requirement they fail to meet, face not being able to undertake new activities or acquisitions that are financial in nature, or losing their ability to continue those activities that are not generally permissible for bank holding companies. In addition, failure to satisfy conditions prescribed by the Federal Reserve to comply with any such requirements could result in orders to divest banking subsidiaries or to cease engaging in activities other than those closely related to banking under the BHC Act.

The BHC Act, the Federal Bank Merger Act, and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the Federal Reserve for the direct or indirect acquisition of control of a commercial bank or its parent holding company, whether by (i) the acquisition of 25 percent or more of any class of voting securities; (ii) controlling the election of a majority of the directors; or (iii) the exercise of a controlling influence over the management or policies of the banking organization, which can include the acquisition of as little as 5 percent of any class of voting securities together with other factors. Under the Federal Bank Merger Act, the prior approval of the OCC is required for a national bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant's performance record under the Community Reinvestment Act (see the section captioned "Community Reinvestment Act" included elsewhere in this item), fair housing laws and the effectiveness of the subject organizations in combating money laundering

Table of Contents

activities. Under the Dodd-Frank Act, bank regulatory authorities will also review the potential risks of the transaction to the stability of the U.S. banking system or financial system.

Source of Strength Doctrine

Federal Reserve policy requires a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks and does not permit a bank holding company to conduct its operations in an unsafe or unsound manner. Under this "source of strength doctrine," a bank holding company is expected to stand ready to use its available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity, and to maintain resources and the capacity to raise capital that it can commit to its subsidiary banks. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment of deposits and to certain other indebtedness of such subsidiary banks. The BHC Act provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment. In addition, under the National Bank Act, if the capital stock of the Bank is impaired by losses or otherwise, the OCC is authorized to require payment of the deficiency by assessment upon the Corporation. If the assessment is not paid within three months, the OCC could order a sale of the Bank stock held by the Corporation to make good the deficiency. Furthermore, the Federal Reserve has the right to order a bank holding company to terminate any activity that the Federal Reserve believes is a serious risk to the financial safety, soundness or stability of any subsidiary bank. The Dodd-Frank Act codifies the "source of strength doctrine".

The Bank

The OCC has extensive examination, supervision and enforcement authority over all national banks, including the Bank. If, as a result of an examination of a bank, the OCC determines that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the bank's operations are unsatisfactory or that the bank or its management is violating or has violated any law or regulation, various remedies are available to the OCC. These remedies include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the Bank, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate the Bank's deposit insurance.

The OCC, as well as other federal banking agencies, has adopted regulations and guidelines establishing safety and soundness standards, including but not limited to such matters as loan underwriting and documentation, risk management, internal controls and audit systems, interest rate risk exposure, asset quality and earnings and compensation and other employee benefits.

Various other requirements and restrictions under the laws of the United States affect the operations of the Bank. Statutes and regulations relate to many aspects of the Bank's operations, including reserves against deposits, ownership of deposit accounts, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, and capital requirements.

Recent Legislative Developments

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, and will result in fundamental changes to the system of supervision and regulation described herein. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the rules and regulations, and, as a result, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

The Dodd-Frank Act expands the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2009, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

The Dodd-Frank Act establishes a new Bureau of Consumer Financial Protection ("CFPB") with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and gives state attorneys general the ability to enforce federal consumer protection laws.

In addition, the Dodd-Frank Act, among other things:

- Creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;

- Applies the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies which, among other things, will, after a three-year phase-in period which begins January 1, 2013, remove trust preferred securities as a permitted component of a holding company's Tier 1 capital;

- Requires the OCC to seek to make countercyclical its capital requirements for national banks, such as the Bank, so that the amount of capital required increases in times of economic expansion and decreases in times of economic contraction consistent with the safety and soundness of such institution;

- Provides for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more and increases the minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35%;

- Repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

- Imposes comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;

- Authorizes the SEC to establish a fiduciary duty for broker-dealers when providing investment advice to retail customers, which standard would be no less stringent than the standard currently applied to investment advisors;

- Prohibits banking entities from engaging in most proprietary trading or from acquiring or retaining any equity, partnership or other ownership interest in, or sponsorship of, a private equity or hedge fund, subject to certain limited exceptions;

Amends the Electronic Fund Transfer Act (EFTA) to, among other things, give the Federal Reserve the authority to issue rules which are expected to limit debit-card interchange fees;

Table of Contents

Provides mortgage reform provisions regarding a customer's ability to repay, restricting variable-rate lending by requiring that the ability to repay be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and

Implements corporate governance revisions, including with regard to executive compensation and proxy access by stockholders, that apply to all public companies, not just financial institutions.

The environment in which banking organizations will operate after the financial crisis, including legislative and regulatory changes affecting capital, liquidity, supervision, permissible activities, corporate governance and compensation, changes in fiscal policy and steps to eliminate government support for banking organizations, may have long-term effects on the business model and profitability of banking organizations that cannot now be foreseen. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Provisions in the legislation that revoke the Tier 1 capital treatment of trust preferred securities and otherwise require revisions to the capital requirements of the Corporation and the Bank could require the Corporation and the Bank to seek other sources of capital in the future.

Anti-Money Laundering and OFAC Regulation

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act of 1970 ("BSA") and subsequent laws and regulations require the Bank to take steps to prevent the use of the Bank or its systems from facilitating the flow of illegal or illicit money and to file suspicious activity reports. Those requirements include ensuring effective Board and management oversight, establishing policies and procedures, developing effective monitoring and reporting capabilities, ensuring adequate training and establishing a comprehensive internal audit of BSA compliance activities. The USA Patriot Act of 2001 ("Patriot Act") significantly expanded the anti-money laundering ("AML") and financial transparency laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Regulations promulgated under the Patriot Act impose various requirements on financial institutions, such as standards for verifying client identification at account opening and maintaining expanded records (including "Know Your Customer" and "Enhanced Due Diligence" practices) and other obligations to maintain appropriate policies, procedures and controls to aid the process of preventing, detecting, and reporting money laundering and terrorist financing. The Patriot Act also applies BSA procedures to broker-dealers. An institution subject to the Patriot Act must provide AML training to employees, designate an AML compliance officer and annually audit the AML program to assess its effectiveness. The OCC continues to issue regulations and new guidance with respect to the application and requirements of BSA and AML. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. Based on their administration by Treasury's Office of Foreign Assets Control ("OFAC"), these are typically known as the "OFAC" rules. The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC.

Failure of a financial institution to maintain and implement adequate BSA, AML and OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Dividends and Other Transfers of Funds

The Corporation is a legal entity separate and distinct from the Bank. Dividends from the Bank constitute the principal source of cash revenues to the Corporation. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends to the Corporation. The prior approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year would exceed the sum of the bank's net profits for that year and its retained net profits for the preceding two calendar years, less any required transfers to surplus. Federal law also prohibits national banks from paying dividends that would be greater than the bank's undivided profits after deducting statutory bad debt in excess of the bank's allowance for loan and lease losses. In addition, federal bank regulatory authorities can prohibit the Bank from paying dividends, depending upon the Bank's financial condition and compliance with capital and non-capital safety and soundness standards established under the Federal Deposit Insurance Act, as described below. Federal regulatory authorities have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. See Note 13 of Notes to Consolidated Financial Statements for additional information.

Federal law limits the ability of the Bank to extend credit to the Corporation or its other affiliates, to invest in stock or other securities thereof, to take such securities as collateral for loans, and to purchase assets from the Corporation or other affiliates. These restrictions prevent the Corporation and such other affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts. Further, such secured loans and investments by the Bank to or in the Corporation or to or in any other affiliate are limited individually to 10 percent of the Bank's capital stock and surplus and in the aggregate to 20 percent of the Bank's capital stock and surplus. See Note 13 of Notes to Consolidated Financial Statements for additional information.

Federal law also provides that extensions of credit and other transactions between the Bank and the Corporation or one of its non-bank subsidiaries must be on terms and conditions, including credit standards, that are substantially the same or at least as favorable to the Bank as those prevailing at the time for comparable transactions involving other non-affiliated companies, or, in the absence of comparable transactions, on terms and conditions, including credit standards, that in good faith would be offered to, or would apply to, non-affiliated companies. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services.

Capital Adequacy and Prompt Corrective Action

Each federal banking regulatory agency has adopted risk-based capital regulations under which a banking organization's capital is compared to the risk associated with its operations for both transactions reported on the balance sheet as assets as well as transactions that are off-balance sheet items, such as letters of credit and recourse arrangements. Under the capital regulations, the nominal dollar amounts of assets and the balance sheet equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0 percent for asset categories with low credit risk, such as certain Treasury securities, to 100 percent for asset categories with relatively high credit risk, such as commercial loans.

In addition to the risk-based capital guidelines, federal banking regulatory agencies require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated composite 1 under the "Composite Uniform Financial Institutions Rating System ("CAMELS")" for banks, which indicates the lowest level of supervisory concern of the five categories used by the federal banking agencies to rate banking organizations ("5" being the highest level of supervisory concern), the minimum leverage ratio is 3 percent. For all banking organizations other than those rated composite 1 under the CAMELS system, the minimum leverage ratio is 4 percent. Banking organizations with supervisory, financial, operational, or managerial weaknesses, as well as organizations that are anticipating or experiencing significant growth, are expected to maintain capital ratios above the minimum levels. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the federal banking agencies have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

At December 31, 2010, the Corporation and the Bank each exceeded the required risk-based capital ratios for classification as "well capitalized" as well as the required minimum leverage ratios. See "Management's Discussion and Analysis Balance Sheet Analysis Capital" of this report.

The Federal Deposit Insurance Act (FDICIA) requires federal bank regulatory agencies to take "prompt corrective action" with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. A depository institution's treatment for purposes of the prompt corrective action provisions will depend on how its capital levels compare to various capital measures and certain other factors, as established by regulation. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. An "undercapitalized" bank must develop a capital restoration plan and its parent holding company must guarantee that bank's compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the bank's assets at the time it become "undercapitalized" or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent's general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The existing U.S. federal bank regulatory agencies' risk-based capital guidelines are based upon the 1988 capital accord ("Basel I") of the Basel Committee on Banking Supervision ("BIS"). The BIS is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply.

For several years, the U.S. bank regulators have been preparing to implement a new framework for risk-based capital adequacy developed by the Basel Committee on Banking Supervision, sometimes referred to as "Basel II." In July 2007, the U.S. bank regulators announced an agreement reflecting their then-current plan for implementing the most advanced approach under Basel II for the largest, most internationally active financial institutions. The agreement also provides that the regulators will propose rules permitting other financial institutions, such as the Corporation, to choose between the current method of calculating risked-based capital ("Basel I") and the "standardized" approach under Basel II. The standardized approach under Basel II would lower risk weightings for certain categories of assets (including mortgages) from the weightings reflected in Basel I, but would also require an explicit capital charge for operational risk, which is not required by Basel I. In connection with comments received on the prior proposal, in July 2008, the U.S. bank regulators proposed a new rule, which includes the previously mentioned methods to calculate risked-based capital, but for institutions using the "standardized" framework, modifies the method for determining the leverage ratio requirement.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the BIS, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III. When fully phased in, Basel III will increase the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and establish a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7%. This capital conservation buffer also will effectively increase the minimum Tier 1 capital ratio from 6% to 8.5% and the minimum total capital ratio from 8% to 10.5%. In addition, Basel III introduces a countercyclical capital buffer of up to 2.5% of common equity or other loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards. The Basel III capital and liquidity standards will be phased in over a period of several years. The final package of Basel III reforms was endorsed by G20 leaders on November 12, 2010, and then will be subject to individual adoption by member nations, including the United States. Banking regulators will likely implement changes to the capital adequacy standards applicable to the Corporation and the Bank in light of Basel III.

At this time, the Corporation cannot predict the final form the Basel II standardized framework will take, when it will be fully implemented, the effect that it might have on the Bank's financial condition or results of its operations, or how these effects might impact the Corporation. Basel III represents both an addition to, and a revision of, the approach of Basel II. As Basel III has not yet been finalized and implemented by the federal banking agencies, the Corporation cannot be certain as to how Basel III will impact the Corporation or the Bank. The Corporation cannot be certain how the regulators will implement requirements of the Dodd-Frank Act that are similar to Basel III.

Premiums for Deposit Insurance

The Bank's deposits are insured to applicable limits by the FDIC. The Dodd-Frank Act permanently increased the maximum deposit insurance amount from $100,000 to $250,000 retroactive to January 1, 2009. On October 13, 2008, the FDIC established a Temporary Liquidity Guarantee Program under which the FDIC fully guaranteed all non-interest-bearing transaction accounts until December 31, 2010 (the "Transaction Account Guarantee Program") and all senior unsecured debt of insured depository institutions or their qualified holding companies issued between October 14, 2008 and October 31, 2009 that matures prior to December 31, 2012 (the "Debt Guarantee Program"). The Bank participated in the Transaction Account Guarantee Program and did not participate in the Debt Guarantee Program. Under the Transaction Account Guarantee Program, the Bank paid a 10 basis point fee (annualized) on the balance of each covered account in excess of $250,000 through December 31, 2009, and for 2010 paid an increased fee of 15 basis points. The Dodd-Frank Act extended the unlimited deposit insurance on non-interest bearing transaction accounts through December 31, 2012.

The FDIC has adopted a risk-based premium system that provides for quarterly assessments based on an insured institution's weighted ranking in one of four risk categories based on their examination ratings, capital ratios, asset quality ratios and long-term debt issuer rating. Well-capitalized institutions with the CAMELS ratings of 1 or 2 are grouped in Risk Category I and, until 2009, were assessed for deposit insurance at an annual rate of between five and seven basis points with the assessment rate for an individual institution determined according to a formula based on a weighted average of the institution's individual CAMELS component ratings plus either five financial ratios or the average ratings of its long-term debt. Institutions in Risk Categories II, III and IV were assessed at annual rates of 10, 28, and 43 basis points, respectively.

Pursuant to the Federal Deposit Insurance Reform Act of 2005 (the "Reform Act"), as amended by the Dodd-Frank Act, the FDIC is authorized to set the reserve ratio for the Deposit Insurance Fund annually at between 1.35% and 1.5% of estimated insured deposits.

Effective April 1, 2009 the FDIC set the base annual assessment rate for institutions in Risk Category I to between 12 and 16 basis points and the base annual assessment rates for institutions in Risk Categories II, III and IV at 22, 32, and 45 basis points, respectively. An institution's assessment rate could be lowered by as much as five basis points based on the ratio of its long-term unsecured debt to deposits or, for smaller institutions based on the ratio of certain amounts of Tier 1 capital to deposits. The assessment rate may be adjusted for Risk Category I institutions that have a high level of brokered deposits and have experienced higher levels of asset growth (other than through acquisitions) and could be increased by as much as ten basis points for institutions in Risk Categories II, III, and IV whose ratio of brokered deposits to deposits exceeds 10% of assets. Reciprocal deposit arrangements like Certificate of Deposit Account Registry Service (CDARS) were treated as brokered deposits for Risk Category II, III, and IV institutions but not for institutions in Risk Category I. An institution's base assessment rate would also be increased if an institution's ratio of secured liabilities (including FHLB advances and repurchase agreements) to deposits exceeds 25%. The maximum adjustment for secured liabilities for institutions in Risk Categories I, II, III and IV would be 8, 11, 16, and 22.5 basis points, respectively, provided that the adjustment may not increase an institution's base assessment rate by more than 50%.

The FDIC imposed a special assessment equal to five basis points of assets less Tier 1 capital as of June 30, 2009 payable on September 30, 2009 and reserved the right to impose additional special assessments. In lieu of further special assessments, on November 12, 2009 the FDIC approved a final rule to require all insured depository institutions to prepay their estimated risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012 on December 30, 2009. For purposes of estimating future assessments, an institution would assume 5% annual growth in the assessment base and a three basis point increase in the current assessment rate for 2011 and 2012. The prepaid assessment would be applied against the actual assessment until exhausted. Any funds remaining after June 30, 2013 would be returned to the institution. If the prepayment would impair an institution's liquidity or otherwise create significant hardship, it could apply for an exemption.

The Dodd-Frank Act expands the base for FDIC insurance assessments, requiring that assessments be based on the average consolidated total assets less tangible equity capital of a financial institution. On February 7, 2011, the FDIC approved a final rule to implement the foregoing provision of the Dodd-Frank Act and to make other changes to the deposit insurance assessment system applicable to insured depository institutions with over $10 billion in assets, such as the Bank. Among other things, the final rule eliminates risk categories and the use of long-term debt issuer ratings in calculating risk-based assessments, and instead implements a scorecard method, combining CAMELS ratings and certain forward-looking financial measures to assess the risk an institution poses to the Deposit Insurance Fund. The final rule also revises the assessment rate schedule for large institutions and highly complex institutions to provide assessments ranging from 2.5 to 45 basis points.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the Federal Savings and Loan Insurance Corporation. The FICO assessment rates, which are determined quarterly, averaged .0105% of insured deposits on an annualized basis for fiscal year 2010. These assessments will continue until the FICO bonds mature in 2017.

Table of Contents

Depositor Preference

The Federal Deposit Insurance Act provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institutions, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Act permits banks and bank holding companies from any state to acquire banks located in any other state, subject to certain conditions, including certain nationwide and state-imposed concentration limits. The Company also has the ability, subject to certain restrictions, to acquire branches outside its home state by acquisition or merger. Under the Dodd-Frank Act, the establishment of new interstate branches is currently permitted. The Corporation has established or acquired banking operations outside its home state of California in the states of New York and Nevada.

Community Reinvestment Act

Under the Community Reinvestment Act of 1977 ("CRA"), the Bank has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with CRA. CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities and to take that record into account in its evaluation of certain applications by such institution, such as applications for charters, branches and other deposit facilities, relocations, mergers, consolidations and acquisitions or engage in certain activities pursuant to the GLB Act. An unsatisfactory rating may be the basis for denying the application. Based on its most recent examination report from July 2009, the Bank received an overall rating of "satisfactory." In arriving at the overall rating, the OCC rated the Bank's performance levels under CRA with respect to lending (high satisfactory), investment (outstanding) and service (high satisfactory).

Consumer Protection Laws

The Company is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, various state law counterparts, and the Consumer Financial Protection Act of 2010, which constitutes part of the Dodd-Frank Act and establishes the CFPB, as described above.

In addition, federal law and certain state laws (including California) currently contain client privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose non-public information about consumers to affiliated companies and non-affiliated third parties. These rules require disclosure of privacy policies to clients and, in some circumstance, allow consumers to prevent disclosure of certain personal information to affiliates or non-affiliated third parties by means of "opt out" or "opt in" authorizations. Pursuant to the GLB Act and certain state

Table of Contents

laws (including California) companies are required to notify clients of security breaches resulting in unauthorized access to their personal information.

U.S. Treasury's TARP Capital Purchase Program

On November 21, 2008, the Corporation issued 400,000 shares of preferred stock and a warrant to purchase its common stock to the U.S. Treasury as a participant in the TARP Capital Purchase Program. In December 2009, the Corporation repurchased 200,000 shares of the TARP preferred stock that it had issued to the U.S. Treasury and on March 3, 2010, the Corporation repurchased the remaining 200,000 shares of TARP preferred stock. In April 2010, the Corporation repurchased the warrant in full for $18.5 million. During the period that the U.S. Treasury owned the preferred stock, the Corporation was subject to additional regulations including compensation restrictions and additional corporate governance standards. Following the repurchase of the preferred stock, the Corporation is no longer subject to these regulations other than certain reporting and certification obligations related to activities during 2010.

Securities and Exchange Commission

Pursuant to the Sarbanes-Oxley Act of 2002 ("SOX"), publicly-held companies such as the Corporation have significant requirements, particularly in the area of external audits, financial reporting and disclosure, conflicts of interest, and corporate governance at public companies. The Dodd-Frank Act has added new corporate governance and executive compensation requirements, including mandated resolutions for public company proxy statements such as an advisory vote on executive compensation, expanding disclosures for all public companies soliciting proxies and new stock exchange listing standards. The Company, like other public companies, has reviewed and reinforced its internal controls and financial reporting procedures in response to the various requirements of SOX and implementing regulations issued by the SEC and the New York Stock Exchange and will continue to do so with regard to the Dodd-Frank Act. The Company has emphasized best practices in corporate governance in compliance with SOX and will continue to do so in compliance with the Dodd-Frank Act.

The SEC regulations applicable to the Company's investment advisers cover all aspects of the investment advisory business, including compliance requirements, limitations on fees, record-keeping, reporting and disclosure requirements and general anti-fraud prohibitions.

Table of Contents

Executive Officers of the Registrant

Shown below are the names and ages of all executive officers of the Corporation and officers of the Bank who are deemed to be executive officers of the Corporation as of February 1, 2011, with indication of all positions and offices with the Corporation and the Bank.

Name	Age	Present principal occupation and principal occupation during the past five years
Russell Goldsmith (1)	60	President, City National Corporation since May 2005; Chief Executive Officer, City National Corporation and Chairman of the Board and Chief Executive Officer, City National Bank since October 1995; Vice Chairman of City National Corporation October 1995 to May 2005.
Bram Goldsmith	87	Chairman of the Board, City National Corporation
Christopher J. Carey	56	Executive Vice President and Chief Financial Officer, City National Corporation and City National Bank since July 2004.
Christopher J. Warmuth	56	Executive Vice President, City National Corporation and President, City National Bank since May 2005; Executive Vice President and Chief Credit Officer, City National Bank June 2002 to May 2005.
Michael B. Cahill	57	Executive Vice President, Corporate Secretary and General Counsel, City National Bank and City National Corporation since June 2001; Manager, Legal and Compliance Division since 2005.
Brian Fitzmaurice	50	Executive Vice President and Chief Credit Officer, City National Bank since February 2006; Senior Risk Manager, Citibank West, FSB successor to California Federal Bank, FSB, November 2002 to February 2006.
Richard Gershen	56	Executive Vice President, Wealth Management Services, City National Corporation and City National Bank since February 2009; Executive Managing Director, Business Management and Strategy, Evergreen Investments, a division of Wachovia, April 2000 to February 2009.
Olga Tsokova	37	Senior Vice President and Chief Accounting Officer, City National Corporation and City National Bank since July 2008 and SOX 404 Manager since March 2005; Controller, City National Bank, July 2008 to September 2008.

(1) Russell Goldsmith is the son of Bram Goldsmith.

Available Information

The Company's home page on the Internet is www.cnb.com. The Company makes its web site content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K.

The Company makes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statement for its annual shareholder meetings, as well as any amendment to those reports, available free of charge through the Investor Relations page of its web site as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. More information about the Company can be obtained by reviewing the Company's SEC filings on its web site. Information about the Corporation's Board of Directors (the "Board") and its committees and the Company's corporate governance policies and practices is available on the Corporate Governance section of the Investor Relations page of the Company's web site. The SEC also maintains a web site at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including the Corporation. Materials filed with the SEC are also available at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0300.

Item 1A Risk Factors

Forward-Looking Statements

This report and other reports and statements issued by the Company and its officers from time to time contain forward-looking statements that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of our management, and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, and statements preceded by, followed by, or that include the words "will," "believes," "expects," "anticipates," "intends," "plans," "estimates," or similar expressions.

Our management believes these forward-looking statements are reasonable. However, you should not place undue reliance on the forward-looking statements, since they are based on current expectations. Actual results may differ materially from those currently expected or anticipated. Forward-looking statements are not guarantees of performance. By their nature, forward-looking statements are subject to risks, uncertainties, and assumptions. These statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements are made or to update earnings guidance including the factors that influence earnings. A number of factors, many of which are beyond the Company's ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. These factors include, without limitation, the significant factors set forth below.

Factors That May Affect Future Results

General business and economic conditions may significantly affect our earnings. Our business and earnings are sensitive to general business and economic conditions. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in volatility, inflation or interest rates; political unrest, acts of war, terrorism, natural disasters; or a combination of these or other factors. A political, economic or financial disruption in a country or region could adversely impact our business by increasing volatility in financial markets generally.

The United States recently faced a severe economic crisis including a major recession from which it is slowly recovering. Business activity across a wide range of industries and regions remains reduced and local governments and many businesses have experienced financial difficulty. Unemployment levels remain elevated. There can be no assurance when these conditions will improve. The resulting economic pressure on consumers and lack of confidence in the financial market could adversely affect our business, financial condition and results of operations.

The Corporation's financial performance generally, and the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where the Corporation operates and in the United States as a whole. Declines in home values in the Company's markets in California, Nevada and

Table of Contents

New York, have adversely impacted results of operations. Further decline in home values in the Company's markets could have a further negative effect on results of operations, and a significant decline in home values would likely lead to increased delinquencies and credit quality issues in the Company's residential mortgage loan portfolio and home-equity loan portfolio. In addition, economic conditions coupled with elevated unemployment and reduced consumer spending could have a further negative effect on results of the Company's operations through higher credit losses in the commercial loan, commercial real estate loan and commercial real estate construction loan portfolios.

Recent legislation regarding the financial services industry may have a significant adverse effect on our operations. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, which we refer to as the Dodd-Frank Act, was signed into law. The Dodd-Frank Act implements a variety of far-reaching changes and has been called the most sweeping reform of the financial services industry since the 1930s. Many of the provisions of the Dodd-Frank Act will directly affect our ability to conduct our business, including, among other things:

- Creation of a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;
- Application of the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, such as the Corporation, which, among other things, will, after a three-year phase-in period which begins January 1, 2013, remove trust preferred securities as a permitted component of a holding company's Tier 1 capital;
- Requirement that the OCC seek to make countercyclical its capital requirements for national banks, such as the Bank;
- Increase in the FDIC assessment for depository institutions with assets of $10 billion or more, such as the Bank, and increases the minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35%;
- Repeal of the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- Establishment of a consumer financial protection bureau with broad authority to implement new consumer protection regulations and, for bank holding companies with $10 billion or more in assets, to examine and enforce compliance with federal consumer laws;
- Amendment of the Electronic Fund Transfer Act (EFTA) to, among other things, give the Federal Reserve the authority to issue rules which are expected to limit debit-card interchange fees; and
- Establishment of mortgage reform provisions regarding a customer's ability to repay, restricting variable-rate lending by requiring that the ability to repay be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions.

Many provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, the effects of which are not yet known, including mandates requiring the Federal Reserve to establish compensation guidelines covering regulated financial institutions. The provisions of the Dodd-Frank Act and any rules adopted to implement those provisions as well as any additional legislative or regulatory changes may impact the profitability of our business activities, may require that we change certain of our business practices, may materially affect our business model or affect retention of key personnel, may require us to raise additional regulatory capital and could expose us to additional costs (including increased compliance costs). These and other changes may also require us to

Table of Contents

invest significant management attention and resources to make any necessary changes and may adversely affect our ability to conduct our business as previously conducted or our results of operations or financial condition.

Further significant changes in banking laws or regulations and federal monetary policy could materially affect our business. The banking industry is subject to extensive federal and state regulation, and significant new laws or changes in, or repeals of, existing laws may cause results to differ materially. Also, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects our credit conditions, primarily through open market operations in U.S. government securities, the discount rate for member bank borrowing, and bank reserve requirements. A material change in these conditions would affect our results. Parts of our business are also subject to federal and state securities laws and regulations. Significant changes in these laws and regulations would also affect our business. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. For further discussion of the regulation of financial services, see "Supervision and Regulation" and the discussion under Item 1, Business, "Economic Conditions, Government Policies, Legislation and Regulation."

We cannot predict the substance or impact of any change in regulation, whether by regulators or as a result of legislation, or in the way such statutory or regulatory requirements are interpreted or enforced. Compliance with such current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business practices, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner.

We may be subject to more stringent capital requirements. As discussed above, the Dodd-Frank Act creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital requirements as companies grow in size and complexity, requires that the OCC seek to make countercyclical its capital requirements for national banks and applies the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, which, among other things, will, after a three-year phase-in period which begins January 1, 2013, remove trust preferred securities as a permitted component of a holding company's Tier 1 capital. These requirements, and any other new regulations, could adversely affect our ability to pay dividends, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our results of operations or financial condition.

In addition, on September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III. When fully phased in, Basel III will increase the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and establish a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7%. This capital conservation buffer also will effectively increase the minimum Tier 1 capital ratio from 6% to 8.5% and the minimum total capital ratio from 8% to 10.5%. In addition, Basel III introduces a countercyclical capital buffer of up to 2.5% of common equity or other loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards. The Basel III capital and liquidity standards will be phased in over a period of several years. The final package of Basel III reforms was endorsed by G20 leaders on November 12, 2010, and then will be subject to individual adoption by member nations, including the United States.

Banking regulators will likely implement changes to the capital adequacy standards applicable to the Corporation and the Bank in light of Basel III. The ultimate impact of the new capital and liquidity standards cannot be determined at this time and will depend on a number of factors, including treatment and implementation by the U.S. banking regulators.

Table of Contents

Changes in interest rates affect our profitability. We derive our income mainly from the difference or "spread" between the interest we earn on loans, securities, and other interest-earning assets, and interest we pay on deposits, borrowings, and other interest-bearing liabilities. In general, the wider this spread, the more we earn. When market rates of interest change, the interest we earn on our assets and the interest we pay on our liabilities fluctuate. This causes our spread to increase or decrease and affects our net interest income. Although we actively manage our asset and liability positions, we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" would work against us, and our earnings may be negatively affected. In addition, interest rates affect how much money we lend, and changes in interest rates may negatively affect deposit growth.

Our results may be adversely affected if we continue to suffer higher than expected losses on our loans due to a slow economy, real estate cycles or other economic events which could require us to increase our allowance for loan and lease losses. We assume credit risk from the possibility that we will suffer losses because borrowers, guarantors, and related parties fail to perform under the terms of their loans. We try to minimize and monitor this risk by adopting and implementing what we believe are effective underwriting and credit policies and procedures, including how we establish and review the allowance for loan and lease losses. We assess the likelihood of nonperformance, track loan performance, and diversify our credit portfolio. Those policies and procedures may still not prevent unexpected losses that could adversely affect our results. The Company continually monitors changes in the economy, particularly housing prices and unemployment rates. There are inherent risks in our lending activities, including flat or volatile interest rates and changes in the economic conditions in the markets in which we operate. Continuing weak economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of collateral securing those loans. If the value of real estate in the Company's market declines materially, a significant portion of the loan portfolio could become under-collateralized which could have a further negative effect on results of operations. We monitor the value of collateral, such as real estate, for loans made by us. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan and lease losses. See the section captioned "Loan and Lease Portfolio" and "Asset Quality" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to our loan portfolio and our process for determining the appropriate level of the allowance for possible loan losses.

We may experience further impairments of loans covered under loss-sharing agreements with FDIC ("covered loans") that could negatively impact our earnings. The Company updates its cash flow projections for covered loans on a quarterly basis. If the expected cash flows decrease due to an anticipated deterioration of performance of covered loans and/or the timing of cash flows and credit losses, a provision expense and an allowance for loan losses could be recognized.

A portion of the income generated by our wealth management division and asset management affiliates is subject to market valuation risks. A substantial portion of trust and investment fee income is based on equity, fixed income and other market valuations. As a result, volatility in these markets can positively or negatively impact noninterest income. In addition, because of the low interest rate environment, the off-balance sheet money market funds managed by our wealth management business may be at a greater risk of being moved by our clients to another company or to the Bank's on-balance sheet money market funds. As a result, this may have an unfavorable impact overall on our earnings. However, this could enhance the Company's overall liquidity position.

Table of Contents

We may experience further write downs of our financial instruments and other losses related to volatile and illiquid market conditions. Market volatility, illiquid market conditions and disruptions in the credit markets have made it extremely difficult to value certain of our securities. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of these securities in future periods. In addition, at the time of any sales and settlements of these securities, the price we ultimately realize will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could require us to take further write downs in the value of our securities portfolio, which may have an adverse impact on our results of operations in future periods.

Bank clients could move their money to alternative investments causing us to lose a lower cost source of funding. Demand deposits can decrease when clients perceive alternative investments, such as those available in our wealth management business, as providing a better risk/return tradeoff. Technology and other changes have made it more convenient for bank customers to transfer funds into alternative investments or other deposit accounts offered by other financial institutions or non-bank service providers. When clients move money out of bank demand deposits and into other investments, we lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income.

Increased competition from financial service companies and other companies that offer banking and wealth management services could negatively impact our business. Increased competition in our market may result in reduced loans, deposits and/or assets under management. Many competitors offer the banking services and wealth management services that we offer in our service area. These competitors, both domestic and foreign, include national, regional, and community banks. We also face intense competition from many other types of financial institutions, including, without limitation, savings and loans, finance companies, brokerage firms, insurance companies, credit unions, private equity funds, mortgage banks, and other financial intermediaries. Banks, trust companies, investment advisors, mutual fund companies, multi-family offices and insurance companies compete with us for trust and asset management business. In addition, technological advances and the growth of e-commerce have made it possible for non-depository institutions to offer products and services that were traditionally offered only by banks.

We also face intense competition for talent. Our success depends, in large part, on our ability to hire and retain key people. Competition for the best people in most businesses in which we engage can be intense. If we are unable to attract and retain talented people, our business could suffer. The Dodd-Frank Act includes mandates requiring the Federal Reserve to establish compensation guidelines covering regulated financial institutions. Restrictions on executive compensation could have an adverse effect on our ability to hire or retain our talent.

Our controls and procedures could fail or be circumvented. Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met. Any failure or circumvention of our controls and procedures, and any failure to comply with regulations related to controls and procedures could adversely affect our business, results of operations and financial condition.

Changes in accounting standards or tax legislation. Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time the Financial Accounting Standards Board ("FASB") and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements or elected representatives approve changes to tax laws. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations.

Acquisition risks. We have in the past and may in the future seek to grow our business by acquiring other businesses. We cannot predict the frequency, size or timing of our acquisitions, and we typically do not comment publicly on a possible acquisition until we have signed a definitive agreement. There can be no assurance that our acquisitions will have the anticipated positive results, including results related to: the total cost of integration; the time required to complete the integration; the amount of longer-term cost savings; continued growth; or the overall performance of the acquired company or combined entity. Integration of an acquired business can be complex and costly. If we are not able to integrate successfully past or future acquisitions, there is a risk that results of operations could be adversely affected.

Impairment of goodwill or amortizable intangible assets associated with acquisitions would result in a charge to earnings. Goodwill is evaluated for impairment at least annually, and amortizable intangible assets are evaluated for impairment annually or when events or circumstances indicate that the carrying value of those assets may not be recoverable. We may be required to record a charge to earnings during the period in which any impairment of goodwill or intangibles is determined.

Operational risks. The potential for operational risk exposure exists throughout our organization. Integral to our performance is the continued efficacy of our technology and information systems, operational infrastructure, and relationships with third parties and our colleagues in our day-to-day and ongoing operations. Failure by any or all of these resources subjects us to risks that may vary in size, scale and scope. This includes but is not limited to operational or systems failures, disruption of client operations and activities, ineffectiveness or exposure due to interruption in third party support as expected, as well as, the loss of key colleagues or failure on the part of key colleagues to perform properly.

Negative public opinion could damage our reputation and adversely affect our earnings. Reputational risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from the actual or perceived manner in which we conduct our business activities, including activities in our private and business banking operations and investment and trust operations; our management of actual or potential conflicts of interest and ethical issues; and our protection of confidential client information. Negative public opinion can adversely affect our ability to keep and attract clients and can expose us to litigation and regulatory action. We take steps to minimize reputation risk in the way we conduct our business activities and deal with our clients, communities and vendors.

The soundness of other financial institutions could adversely affect us. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. Any such losses could have a material adverse effect on our financial condition and results of operations.

Item 1B Unresolved Staff Comments

The Company has no written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of its 2010 fiscal year and that remain unresolved.

Table of Contents

Item 2. Properties

The Bank leases approximately 391,000 rentable square feet of commercial office space in downtown Los Angeles in the office tower located at 555 S. Flower Street ("City National Plaza"). City National Plaza serves as both the Corporation's and the Bank's headquarters. In addition, City National Plaza houses the Company's Downtown Los Angeles Regional Center, offering extensive private and business banking and wealth management capabilities.

As of December 31, 2010, the Bank owned five banking office properties in Beverly Hills, Riverside and Sun Valley, California and in North Las Vegas and Minden, Nevada. In addition to the properties owned, the Company maintained operations in 70 banking offices for a total of 75 banking offices and 9 other operations and general office properties as of December 31, 2010.

The non-owned banking offices and other properties are leased by the Bank. Total annual net rental payments (exclusive of operating charges and real property taxes) are approximately $30 million, with lease expiration dates for office facilities ranging from 2011 to 2022, exclusive of renewal options.

The wealth management affiliates lease a total of 18 offices (excluding offices that are being subleased). Total annual net rental payments (exclusive of operating charges and real property taxes) for all affiliates are approximately $5.1 million.

Item 3. Legal Proceedings

The Corporation and its subsidiaries are defendants in various pending lawsuits. Based on present knowledge, management, including in-house counsel, does not believe that the outcome of such lawsuits will have a material adverse effect upon the Company.

The Corporation is not aware of any material proceedings to which any director, officer, or affiliate of the Corporation, any owner of record or beneficially of more than 5 percent of the voting securities of the Corporation as of December 31, 2010, or any associate of any such director, officer, affiliate of the Corporation, or security holder is a party adverse to the Corporation or any of its subsidiaries or has a material interest adverse to the Corporation or any of its subsidiaries.

Item 4. Reserved

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Corporation's common stock is listed and traded principally on the New York Stock Exchange under the symbol "CYN." Information concerning the range of high and low sales prices for the Corporation's common stock, and the dividends declared, for each quarterly period within the past two fiscal years is set forth below.

Quarter Ended	High	Low	Dividends Declared
2010			
March 31	$ 54.86	$ 45.81	$ 0.10
June 30	64.13	51.23	0.10
September 30	58.00	47.91	0.10
December 31	62.91	51.57	0.10
2009			
March 31	$ 47.76	$ 22.83	$ 0.25
June 30	44.14	31.87	0.10
September 30	43.80	33.13	0.10
December 31	47.32	36.59	0.10

The Company's common stock is traded on the New York Stock Exchange (ticker symbol CYN). As of January 31, 2011, the closing price of the Corporation's stock was $57.79 per share. As of that date, there were approximately 1,824 holders of record of the Corporation's common stock. On January 20, 2011, the Board of Directors authorized a regular quarterly cash dividend on its common stock at a rate of $0.20 per share payable on February 16, 2011 to all shareholders of record on February 2, 2011.

For a discussion of dividend restrictions on the Corporation's common stock, see the *Dividends and Other Transfers of Funds* section of Part I and Note 13 of the Notes to Consolidated Financial Statements.

On January 24, 2008, the Company's Board of Directors authorized the Corporation to repurchase 1 million additional shares of the Corporation's stock following the completion of its previously approved initiative. Unless terminated earlier by resolution of the Board of Directors, the program will expire when the Corporation has repurchased all shares authorized for repurchase thereunder. There were no issuer repurchases of the Corporation's common stock as part of its repurchase plan in the fourth quarter of the year ended December 31, 2010. As of December 31, 2010, there were 1,140,400 shares remaining to be purchased. The Corporation received no shares in payment for the exercise price of stock options.

Item 6. Selected Financial Data

The information required by this item appears on page 39 under the caption "Selected Financial Information," and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by this item appears on pages 40 through 107, under the caption "Management's Discussion and Analysis," and is incorporated herein by reference.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by this item appears on pages 67 through 73, under the caption "Management's Discussion and Analysis," and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The information required by this item appears on page 107 under the captions "2010 Quarterly Operating Results" and "2009 Quarterly Operating Results," and on page A-4 through A-82 and is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

Management's Report on Internal Control over Financial Reporting.

Management's Report on Internal Control Over Financial Reporting appears on page A-1 of this report. The Company's independent registered public accounting firm, KPMG LLP, has issued an audit report on the effectiveness of the Company's internal control over financial reporting. That report appears on page A-2.

Changes in Internal Controls

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

Item 9B. Other Information.

None.

Table of Contents

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G (3).

The additional information required by this item will appear in the Corporation's definitive proxy statement for the 2011 Annual Meeting of Stockholders (the "2011 Proxy Statement"), and such information either shall be (i) deemed to be incorporated herein by reference from that portion of the 2011 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

Item 11. Executive Compensation

The information required by this item will appear in the 2011 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2011 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table summarizes information, as of December 31, 2010, relating to equity compensation plans of the Company pursuant to which equity securities of the Company are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	4,939,349(1)(2)	$ 51.75(2)	1,543,926(3)
Equity compensation plans not approved by security holders	427,857	$ 47.71	
Total	5,367,206(2)	$ 51.38(2)	1,543,926(3)

(1) Includes 382 shares assumed in the acquisition of Business Bank Corporation ("BBC") with a weighted-average exercise price of $38.72. BBC shareholders had approved these stock option plans.

(2) Includes 717,342 shares of outstanding restricted stock and restricted stock units. The weighted-average exercise price does not take into account awards that have no exercise price such as restricted stock and restricted stock units.

(3) The 2008 Omnibus Plan provides for the reduction in the maximum number of shares available for awards of 2 shares (3.3 shares for awards made prior to April 21, 2010) for every share of restricted stock or restricted stock unit issued.

Table of Contents

In March 2001, the Board of Directors adopted the 2001 Stock Option Plan (the "2001 Plan"), which is a broadly-based stock option plan under which options were only granted to employees of the Corporation and subsidiaries who are neither directors or executive officers. The 2001 Plan contains a change of control provision similar to other stockholder approved plan. The 2001 Plan was not submitted to the stockholders for their approval. No further awards can be issued under the 2001 Plan.

Other information required by this item will appear in the 2011 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2011 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

Item 13. Certain Relationships and Related Transactions

The information required by this item will appear in the 2011 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2011 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period. Also see Note 7 to Notes to Consolidated Financial Statements.

Item 14. Principal Accountant Fees and Services.

The information required by this item will appear in the 2011 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2011 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements:

2. All other schedules and separate financial statements of 50 percent or less owned companies accounted for by the equity method have been omitted because they are not applicable.
3. Exhibits

Exhibit No.	Description	Location
2.1	Purchase and Assumption Agreement Whole Bank All Deposits, among the Federal Deposit Insurance Corporation, Receiver of Imperial Capital Bank, La Jolla, California, the Federal Deposit Insurance Corporation and City National Bank, dated as of December 18, 2009.	Incorporated by reference from the Registrant's Current Report on Form 8-K filed December 22, 2009.
3.1	Restated Certificate of Incorporation.	Incorporated by reference from the Registrant's Annual Report on Form 10-K filed March 1, 2010.
3.2	Form of Certificate of Designations of Series A Junior Participating Cumulative Preferred Stock.	Incorporated by reference from the Registrant's Annual Report on Form 10-K filed March 1, 2010.
3.3	Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series B.	Incorporated by reference from the Registrant's Current Report on Form 8-K filed November 24, 2008.
3.4	Bylaws, as amended to date.	Incorporated by reference from the Registrant's Current Report on Form 8-K filed December 22, 2009.
4.1	Specimen Common Stock Certificate for Registrant.	Filed herewith.

Table of Contents

4.2	6.75 percent Subordinated Notes Due 2011 in the principal amount of $150.0 million.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006.
4.3	Indenture dated as of February 13, 2003 between Registrant and U.S. Bank National Association, as Trustee pursuant to which Registrant issued its 5.125 percent Senior Notes due 2013 in the principal amount of $225.0 million and form of 5.125 percent Senior Note due 2013.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.
4.4	Indenture, dated as of September 13, 2010 between the Registrant and The Bank of New York Mellon Trust Company, N.A., as Trustee pursuant to which Registrant issued its 5.250 percent Senior Notes due 2020 in the principal amount of $300.0 million and form of 5.250 percent Senior Note due 2020.	Incorporated by reference from the Registrant's Current Report on Form 8-K filed on September 14, 2010.
4.5	Certificate of Amendment of Articles of Incorporation of CN Real Estate Investment Corporation Articles of Incorporation.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.
4.6	CN Real Estate Investment Corporation Bylaws.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006.
4.7	CN Real Estate Investment Corporation Servicing Agreement.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006.
4.8	CN Real Estate Investment Corporation II Articles of Amendment and Restatement.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.
4.9	CN Real Estate Investment Corporation II Amended and Restated Bylaws.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.
10.1*	Employment Agreement made as of May 15, 2003, by and between Bram Goldsmith, and the Registrant and City National Bank.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.2*	Amendment to Employment Agreement dated as of May 15, 2005 by and between Bram Goldsmith, Registrant, and City National Bank.	Filed herewith.

Table of Contents

10.3*	Second Amendment to Employment Agreement for Bram Goldsmith dated as of May 15, 2007, among Bram Goldsmith, Registrant and City National Bank.	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.
10.4*	Third Amendment to Employment Agreement, dated as of March 3, 2008, by and between Bram Goldsmith, Registrant and City National Bank.	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.
10.5*	Fourth Amendment to Employment Agreement, dated as of December 22, 2008, by and between Bram Goldsmith, Registrant and City National Bank.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.6*	Fifth Amendment to Employment Agreement dated as of April 3, 2009, by and between Bram Goldsmith, Registrant and City National Bank.	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.
10.7*	Sixth Amendment to Employment Agreement dated as of February 9, 2010, by and between Bram Goldsmith, Registrant and City National Bank.	Filed herewith.
10.8*	Seventh Amendment to Employment Agreement dated as of February 17, 2011 by and between Bram Goldsmith, Registrant and City National Bank.	Filed herewith.
10.9*	Amended and Restated Employment Agreement between the Company and Russell Goldsmith dated June 24, 2010.	Filed herewith.
10.10*	1995 Omnibus Plan.	Filed herewith.
10.11*	Amendment to 1995 Omnibus Plan regarding Section 7.6(a).	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.12*	Amended and Restated Section 2.8 of 1995 Omnibus Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.
10.13*	Amendment to City National Corporation 1995 Omnibus Plan dated December 31, 2008.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.14*	1999 Omnibus Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.

Table of Contents

10.15*	Amended and Restated 2002 Omnibus Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.
10.16*	First Amendment to the City National Corporation Amended and Restated 2002 Omnibus Plan.	Filed herewith.
10.17*	Amendment to City National Corporation Amended and Restated 2002 Omnibus Plan dated December 31, 2008.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.18*	Amended and Restated 2010 Variable Bonus Plan.	Incorporated by reference from Appendix B to the Registrant's Proxy Statement filed with the SEC for the Annual Meeting of Stockholders held on April 21, 2010.
10.19*	City National Corporation 2008 Omnibus Plan, As Amended.	Incorporated by reference from Appendix A to the Registrant's Proxy Statement filed with the SEC for the Annual Meeting of Stockholders held on April 21, 2010.
10.20*	2000 City National Bank Executive Deferred Compensation Plan.	Filed herewith.
10.21*	Amendment Number 3 to 2000 City National Bank Executive Deferred Compensation Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.
10.22*	Amendment Number 4 to 2000 City National Bank Executive Deferred Compensation Plan (As in Effect Immediately Prior to January 1, 2009).	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.23*	2000 City National Bank Executive Deferred Compensation Plan (Amended and Restated for Plan Years 2004/05 and Later Effective on January 1, 2009).	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.24*	City National Corporation Strategy and Planning Committee Change in Control Severance Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.25*	City National Corporation Executive Committee Change in Control Severance Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008

10.26*	2000 City National Bank Director Deferred Compensation Plan.	Filed herewith.
10.27*	Amendment Number 2 to 2000 City National Bank Director Deferred Compensation Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007.
10.28*	Amendment Number 3 to 2000 City National Bank Director Deferred Compensation Plan (As In Effect Immediately Prior to January 1, 2009).	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.29*	2000 City National Bank Director Deferred Compensation Plan (Amended and Restated for Plan Years 2005 and Later Effective on January 1, 2009).	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
10.30*	Executive Management Incentive Compensation Plan.	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.
10.31*	Key Officer Incentive Compensation Plan.	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.
10.32*	City National Corporation 2001 Stock Option Plan.	Filed herewith.
10.33*	Form of Restricted Stock Unit Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.
10.34*	Form of Stock Option Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan (Compensation Committee and Board Approval).	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.
10.35*	Form of Stock Option Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan (Compensation Committee Approval).	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.
10.36*	Form of Restricted Stock Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.
10.37*	Form of Director Stock Option Agreement Under the City National Corporation Amended and Restated 2002 Omnibus Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.

10.38*	Form of Stock Option Award Agreement Under the City National Corporation Amended and Restated 2002 Omnibus Plan (2006 and later grants).	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
10.39*	Form of Restricted Stock Award Agreement Under the City National Corporation Amended and Restated 2002 Omnibus Plan and Restricted Stock Unit Award Agreement Addendum (2006 and later grants).	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
10.40*	Form of Restricted Stock Unit Award Agreement Under the City National Corporation Amended and Restated 2002 Omnibus Plan and Restricted Stock Unit Award Agreement Addendum (2006 and later grants).	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
10.41*	Form of Restricted Stock Unit Award Agreement (Cash Only Award) Under the City National Corporation Amended and Restated 2002 Omnibus Plan and Restricted Stock Unit Award Agreement (Cash Only Award) Addendum.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006.
10.42*	Form of Restricted Stock Award Agreement Under the City National Corporation 2008 Omnibus Plan.	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.
10.43*	Form of Restricted Stock Unit Award Agreement and Restricted Stock Unit Award Agreement Addendum under the City National Corporation 2008 Omnibus Plan.	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.
10.44*	Form of Stock Option Award Agreement Under the City National Corporation 2008 Omnibus Plan.	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.
10.45*	Summary Brian Fitzmaurice.	Filed herewith.
10.46*	Letter Agreement dated January 12, 2009 between City National Bank and Richard Gershen.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.
10.47	Lease dated November 19, 2003 between TPG Plaza Investments and City National Bank (Portions of this exhibit have been omitted pursuant to a request for confidential treatment).	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.
12	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements.	Filed herewith.

Table of Contents

21	Subsidiaries of the Registrant.	Filed herewith.
23	Consent of KPMG LLP.	Filed herewith.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14 (a) or 15d-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14 (a) or 15d-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.0	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
99.1	Certification of the Principal Executive Officer Pursuant to 31 CFR Section 30.15 to Comply with Certification Requirements of Section 111(b)(4) of EESA.	Filed herewith.
99.2	Certification of the Principal Financial Officer Pursuant to 31 CFR Section 30.15 to Comply with Certification Requirements of Section 111(b)(4) of EESA.	Filed herewith.
101.INS	XBRL Instance Document.	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith.

* Management contract or compensatory plan or arrangement

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITY NATIONAL CORPORATION
(Registrant)

By /s/ RUSSELL GOLDSMITH

Russell Goldsmith,
President and Chief Executive Officer

February 28, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RUSSELL GOLDSMITH Russell Goldsmith (Principal Executive Officer)	President/Chief Executive Officer/Director	February 28, 2011
/s/ CHRISTOPHER J. CAREY Christopher J. Carey (Principal Financial Officer)	Executive Vice President and Chief Financial Officer	February 28, 2011
/s/ OLGA TSOKOVA Olga Tsokova (Principal Accounting Officer)	Senior Vice President and Chief Accounting Officer	February 28, 2011
/s/ BRAM GOLDSMITH Bram Goldsmith	Chairman of the Board/Director	February 28, 2011
/s/ CHRISTOPHER J. WARMUTH Christopher J. Warmuth	Executive Vice President/Director	February 28, 2011
/s/ RICHARD L. BLOCH Richard L. Bloch	Director	February 28, 2011

Table of Contents

Signature	Title	Date
/s/ KENNETH L. COLEMAN Kenneth L. Coleman	Director	February 28, 2011
/s/ ALISON DAVIS Alison Davis	Director	February 28, 2011
/s/ ASHOK ISRANI Ashok Israni	Director	February 28, 2011
/s/ RONALD L. OLSON Ronald L. Olson	Director	February 28, 2011
/s/ BRUCE ROSENBLUM Bruce Rosenblum	Director	February 28, 2011
/s/ PETER M. THOMAS Peter M. Thomas	Director	February 28, 2011
/s/ ROBERT H. TUTTLE Robert H. Tuttle	Director	February 28, 2011
/s/ KENNETH ZIFFREN Kenneth Ziffren	Director	February 28, 2011

Table of Contents

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

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

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

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

For a more complete discussion of these risks and uncertainties, see Part I, Item 1A, titled "Risk Factors."

Table of Contents

CITY NATIONAL CORPORATION

FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts) (1)	2010	2009	Percent change
FOR THE YEAR			
Net income attributable to City National Corporation	$ 131,177	$ 51,339	156%
Net income available to common shareholders	125,475	25,436	393
Net income per common share, basic	2.38	0.50	376
Net income per common share, diluted	2.36	0.50	372
Dividends per common share	0.40	0.55	(27)
AT YEAR END			
Assets	$ 21,353,118	$ 21,078,757	1
Securities	5,976,072	4,461,060	34
Loans and leases, excluding covered loans	11,386,628	12,146,908	(6)
Covered loans (2)	1,857,522	1,851,821	0
Deposits	18,176,862	17,379,448	5
Common shareholders' equity	1,959,579	1,790,275	9
Total equity	1,984,718	2,012,764	(1)
Book value per common share	37.51	34.74	8
AVERAGE BALANCES			
Assets	$ 21,156,661	$ 17,711,495	19
Securities	4,677,306	3,327,235	41
Loans and leases, excluding covered loans	11,576,380	12,296,619	(6)
Covered loans (2)	1,940,316	66,470	2,819
Deposits	17,868,392	14,351,897	25
Common shareholders' equity	1,902,846	1,745,101	9
Total equity	1,961,109	2,160,922	(9)
SELECTED RATIOS			
Return on average assets	0.62%	0.29%	114
Return on average common shareholders' equity	6.59	1.46	351
Corporation's tier 1 leverage	6.74	9.48	(29)
Corporation's tier 1 risk-based capital	10.52	12.20	(14)
Corporation's total risk-based capital	13.28	15.15	(12)
Period-end common shareholders' equity to period-end assets	9.18	8.49	8
Period-end equity to period-end assets	9.29	9.55	(3)
Dividend payout ratio, per common share	16.75	107.80	(84)
Net interest margin	3.86	3.91	(1)
Expense to revenue ratio (3)	62.45	61.70	1
ASSET QUALITY RATIOS (4)			
Nonaccrual loans to total loans and leases	1.68%	3.20%	(48)
Nonaccrual loans and OREO to total loans and leases and OREO	2.17	3.62	(40)
Allowance for loan and lease losses to total loans and leases	2.26	2.38	(5)
Allowance for loan and lease losses to nonaccrual loans	134.61	74.22	81
Net charge-offs to average total loans and leases	(1.13)	(1.84)	(39)
AT YEAR END			
Assets under management (5)	$ 36,753,673	$ 35,238,753	4
Assets under management or administration (5)	58,470,832	55,119,366	6

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

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

(3)

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

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

(5) Excludes $21.32 billion and $13.41 billion of assets under management for asset managers in which the Company held a noncontrolling ownership interest as of December 31, 2010 and December 31, 2009, respectively.

Table of Contents

SELECTED FINANCIAL INFORMATION

(in thousands, except per share amounts) (1)	2010	2009	2008	2007	2006
	As of or for the year ended December 31,				
Statement of Income Data:					
Interest income	$ 830,196	$ 709,077	$ 784,688	$ 894,101	$ 826,315
Interest expense	99,871	85,024	184,792	285,829	220,405
Net interest income	730,325	624,053	599,896	608,272	605,910
Provision for credit losses on loans and leases,excluding covered loans	103,000	285,000	127,000	20,000	(610)
Provision for losses on covered loans	76,218				
Noninterest income	361,375	292,197	266,984	303,202	242,370
Noninterest expense	751,330	581,087	587,763	534,931	476,046
Income before taxes	161,152	50,163	152,117	356,543	372,844
Income taxes	26,055	(1,886)	41,783	124,974	133,363
Net income	$ 135,097	$ 52,049	$ 110,334	$ 231,569	$ 239,481
Less: Net income attributable to noncontrolling interest	3,920	710	5,378	8,856	5,958
Net income attributable to City National Corporation	$ 131,177	$ 51,339	$ 104,956	$ 222,713	$ 233,523
Less: Dividends and accretion on preferred stock	5,702	25,903	2,445		
Net income available to common shareholders	$ 125,475	$ 25,436	$ 102,511	$ 222,713	$ 233,523
Per Common Share Data:					
Net income per common share, basic	2.38	0.50	2.12	4.58	4.78
Net income per common share, diluted	2.36	0.50	2.11	4.50	4.65
Dividends per common share	0.40	0.55	1.92	1.84	1.64
Book value per common share	37.51	34.74	33.52	33.66	30.86
Shares used to compute net income per common share, basic	51,992	50,272	47,930	48,234	48,477
Shares used to compute net income per common share, diluted	52,455	50,421	48,196	49,069	49,893
Balance Sheet Data At Period End:					
Assets	$ 21,353,118	$ 21,078,757	$ 16,455,515	$ 15,889,290	$ 14,884,309
Securities	5,976,072	4,461,060	2,440,468	2,756,010	3,101,154
Loans and leases, excluding covered loans	11,386,628	12,146,908	12,444,259	11,630,638	10,386,005
Covered loans (2)	1,857,522	1,851,821			
Interest-earning assets	19,667,137	19,055,189	15,104,199	14,544,176	13,722,062
Deposits	18,176,862	17,379,448	12,652,124	11,822,505	12,172,816
Common shareholders' equity	1,959,579	1,790,275	1,614,904	1,610,139	1,465,495
Total equity	1,984,718	2,012,764	2,030,434	1,635,722	1,491,175
Balance Sheet Data Average Balances:					
Assets	$ 21,156,661	$ 17,711,495	$ 16,028,821	$ 15,370,764	$ 14,715,512
Securities	4,677,306	3,327,235	2,398,285	2,833,489	3,488,005
Loans and leases, excluding covered loans	11,576,380	12,296,619	12,088,715	11,057,411	9,948,363
Covered loans (2)	1,940,316	66,470			
Interest-earning assets	19,269,707	16,315,487	14,670,167	14,054,123	13,568,255
Deposits	17,868,392	14,351,897	11,899,642	12,236,383	11,869,927
Common shareholders' equity	1,902,846	1,745,101	1,636,597	1,564,080	1,440,509
Total equity	1,961,109	2,160,922	1,706,092	1,588,480	1,465,726
Asset Quality:					
Nonaccrual loans, excluding covered nonaccrual loans	$ 190,923	$ 388,707	$ 211,142	$ 75,561	$ 20,883
Covered nonaccrual loans	2,557				
OREO, excluding covered OREO	57,317	53,308	11,388		
Covered OREO	120,866	60,558			
Total nonaccrual loans and OREO	$ 371,663	$ 502,573	$ 222,530	$ 75,561	$ 20,883
Performance Ratios:					
Return on average assets	0.62%	0.29%	0.65%	1.45%	1.59%
Return on average common shareholders' equity	6.59	1.46	6.26	14.24	16.21

Net interest spread	3.45	3.41	3.27	2.91	3.18
Net interest margin	3.86	3.91	4.20	4.45	4.58
Period-end common shareholders' equity to period-end assets	9.18	8.49	9.81	10.13	9.85
Period-end equity to period-end assets	9.29	9.55	12.34	10.29	10.02
Dividend payout ratio, per common share	16.75	107.80	90.61	40.13	34.31
Expense to revenue ratio	62.45	61.70	66.80	57.87	55.28
Asset Quality Ratios (3):					
Nonaccrual loans to total loans and leases	1.68%	3.20%	1.70%	0.65%	0.20%
Nonaccrual loans and OREO to total loans and leases and OREO	2.17	3.62	1.79	0.65	0.20
Allowance for loan and lease losses to total loans and leases	2.26	2.38	1.80	1.45	1.50
Allowance for loan and lease losses to nonaccrual loans	134.61	74.22	106.11	223.03	743.88
Net (charge-offs)/recoveries to average total loans and leases	(1.13)	(1.84)	(0.57)	(0.08)	0.03

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

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

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

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

City National Corporation (the "Corporation"), through its primary subsidiary, City National Bank (the "Bank"), provides private and business banking services, including investment and trust services to mid-size businesses, entrepreneurs, professionals and affluent individuals. The Bank is the largest independent commercial bank headquartered in Los Angeles. For over 50 years, the Bank has served clients through relationship banking. The Bank seeks to build client relationships with a high level of personal service and tailored products through private and commercial banking teams, product specialists and investment advisors to facilitate clients' use, where appropriate, of multiple services and products offered by the Company. The Company offers a broad range of lending, deposit, cash management, international banking and other products and services. The Company also lends, invests and provides services in accordance with its Community Reinvestment Act commitment. Through the Company's asset management firms, subsidiaries of the Corporation, and Wealth Management Services, a division of the Bank, the Company offers 1) investment management and advisory services and brokerage services, including portfolio management, securities trading and asset management; 2) personal and business trust and investment services, including employee benefit trust services; 401(k) and defined benefit plan administration, and; 3) estate and financial planning and custodial services. The Bank also advises and markets mutual funds under the name of CNI Charter Funds.

The Corporation is the holding company for the Bank. References to the "Company" mean the Corporation and its subsidiaries including the Bank. The financial information presented herein includes the accounts of the Corporation, its non-bank subsidiaries, the Bank, and the Bank's wholly owned subsidiaries. All material transactions between these entities are eliminated.

See "Cautionary Statement for Purposes of the 'Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995," on page 37 in connection with "forward-looking" statements included in this report.

Over the last three years, the Company's total assets have grown by 34 percent. Total loans, excluding loans covered by a loss sharing agreement with the Federal Deposit Insurance Corporation ("FDIC"), were down 2 percent. The decline in loans reflect relatively weak loan demand due to challenging business and economic conditions in past and current years, along with the Company's continued progress in reducing the number of problem loans. Deposit balances grew 54 percent for the same period.

On July 21, 2009, the Company acquired a majority interest in Lee Munder Capital Group, LLC ("LMCG"), a Boston-based investment firm that manages assets for corporations, pensions, endowments and affluent households. LMCG had approximately $3.36 billion of assets under management at the date of acquisition and manages or advises on client assets totaling $4.93 billion as of December 31, 2010. LMCG was merged with Independence Investments, a Boston-based institutional asset management firm in which the Company held a majority interest. The combined entity is the Company's primary institutional asset management affiliate, with more than $4 billion of assets under management at acquisition date. It is operated under the Lee Munder Capital Group name and is an affiliate of Convergent Capital Management LLC.

On December 18, 2009, the Bank acquired the banking operations of Imperial Capital Bank ("ICB") in a purchase and assumption agreement with the FDIC. Excluding the effects of acquisition accounting adjustments, the Company acquired approximately $3.26 billion in assets, $2.38 billion in loans and $2.08 billion in deposits. In connection with the acquisition, the Company entered into a loss sharing agreement with the FDIC with respect to acquired loans ("covered loans") and other real estate owned ("covered other real estate owned" or "covered OREO") (collectively, "covered assets").

Table of Contents

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 acquired loans and OREO are subject to a loss sharing agreement with the FDIC.

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

On November 15, 2010, the Company completed a relatively small, but strategically important acquisition of a Los Angeles, California-based accounting software firm, Datafaction, which will complement the Bank's proprietary cash management solutions available to its business clients.

CAPITAL ACTIVITY

On January 24, 2008, the Board of Directors authorized the repurchase of 1 million shares of City National Corporation stock, following the completion of its previously approved stock buyback initiative. The Corporation repurchased an aggregate of 421,500 shares of common stock in 2008 at an average price of $48.41. The shares purchased under the buyback programs may be reissued for acquisitions, upon the exercise of stock options, and for other general corporate purposes. The Corporation did not repurchase any shares in 2009 and 2010. At January 31, 2011, additional shares of 1,140,400 could be repurchased under the existing authority.

The Corporation paid dividends of $0.40 per share of common stock in 2010 and $0.55 per share of common stock in 2009. On January 20, 2011, the Board of Directors authorized a quarterly cash dividend on common stock at a rate of $0.20 per share to shareholders of record on February 2, 2011, payable on February 16, 2011.

On November 21, 2008, City National Corporation received aggregate proceeds of $400 million from the United States Department of the Treasury ("Treasury") under the Troubled Asset Relief Program ("TARP") Capital Purchase Program in exchange for 400,000 shares of cumulative perpetual preferred stock and a 10-year warrant to purchase up to 1,128,668 shares of the Company's common stock at an exercise price of $53.16 per share. The preferred stock and warrant were recorded in equity on a relative fair value basis at the time of issuance. The preferred stock was valued by calculating the present value of expected cash flows and the warrant was valued using an option valuation model. The allocated values of the preferred stock and warrant were approximately $389.9 million and $10.1 million, respectively. Cumulative dividends on the preferred stock were payable quarterly at the rate of 5 percent for the first five years and increasing to 9 percent thereafter. The warrant had a 10-year term and was immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to $53.16 per share of the common stock.

On December 30, 2009, the Corporation repurchased $200 million, or 200,000 shares, of preferred shares from the Treasury. The repurchase represented 50 percent of the preferred stock issued to the Treasury and required an accelerated accretion charge of $4.0 million in 2009. On March 3, 2010, the Corporation repurchased the remaining $200 million, or 200,000 shares, of preferred shares, which resulted in an accelerated accretion charge of $3.8 million in 2010. On April 8, 2010, the Corporation repurchased its outstanding common stock warrant issued to the Treasury. The repurchase price of $18.5 million was recorded as a charge to additional paid-in capital.

Table of Contents

Dividends on preferred stock were paid on a quarterly basis. The Corporation paid dividends of $1.7 million and accreted $4.0 million of discount on preferred stock in 2010. The Corporation paid or accrued dividends of $19.9 million and accreted $6.0 million of discount on preferred stock in 2009. The discount accretion includes the accelerated accretion due to the repurchase of preferred stock in 2010 and 2009.

On December 8, 2009, City National Capital Trust I, a statutory trust formed by the Corporation, issued $250.0 million of cumulative trust preferred securities. The notes paid a fixed rate of 9.625 percent and mature on February 1, 2040. The trust preferred securities qualified as Tier 1 capital. On October 16, 2010, the Company used net proceeds from a September 2010 issue of senior notes to redeem the $250.0 million of trust preferred securities. The Company recognized a $6.8 million charge on the early redemption of the trust preferred securities in noninterest income in 2010.

On July 15, 2009, the Bank issued a $50.0 million unsecured subordinated note to a third party investor that matures on July 15, 2019. On August 12, 2009, the Bank issued $130.0 million in subordinated notes of which $55.0 million were floating rate subordinated notes and $75.0 million were fixed rate subordinated notes. These subordinated notes mature on August 12, 2019. The subordinated notes qualify as Tier 2 capital for regulatory purposes.

On May 8, 2009, the Corporation completed an offering of 2.8 million common shares at $39.00 per share. The net proceeds from the offering were $104.3 million. On May 15, 2009, the underwriters exercised their over-allotment option to purchase an additional 420,000 shares of the Corporation's common stock at $39.00 per share. The net proceeds from the exercise of the over-allotment option were $15.6 million. Common stock qualifies as Tier 1 capital.

CRITICAL ACCOUNTING POLICIES

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

The Company's critical accounting policies include those that address accounting for business combinations, financial assets and liabilities reported at fair value, securities, acquired impaired loans, allowance for loan and lease losses and reserve for off-balance sheet credit commitments, other real estate owned, goodwill and other intangible assets, noncontrolling interest, share-based compensation plans, income taxes and derivatives and hedging activities. The Company, with the concurrence of the Audit and Risk Committee, has reviewed and approved these critical accounting policies, which are further described in Management's Discussion and Analysis and Note 1 of the Notes to Consolidated Financial Statements included in this Form 10-K. Management has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements.

Business Combinations

The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred.

Fair Value Measurements

Under Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures*, fair value for financial reporting purposes is 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. Inputs used in valuation techniques are prioritized in the fair value hierarchy as follows:

Level 1	Quoted market prices in an active market for identical assets and liabilities.
Level 2	Observable inputs including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability such as interest rates, yield curves, volatilities and default rates, and inputs that are derived principally from or corroborated by observable market data.
Level 3	Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

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

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

Table of Contents

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value follows.

Securities Fair values for U.S. Treasury securities, marketable equity securities and trading securities, with the exception of agency securities held in the trading account, are based on quoted market prices. Securities with fair values based on quoted market prices are classified in Level 1 of the fair value hierarchy. Level 2 securities include the Company's portfolio of federal agency, mortgage-backed, state and municipal securities for which fair values are calculated with models using quoted prices and other inputs directly or indirectly observable for the asset or liability. Prices for the significant majority of these securities are obtained through a third-party valuation source. Management reviewed the valuation techniques and assumptions used by the provider and determined that the provider utilizes widely accepted valuation techniques based on observable market inputs appropriate for the type of security being measured. Prices for the remaining securities are obtained from dealer quotes. Securities classified in Level 3 include certain collateralized debt obligation instruments for which the market has become inactive. Fair values for these securities were determined using internal models based on assumptions that are not observable in the market.

Loans The Company does not record loans at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans. Loans measured for impairment based on the fair value of collateral or observable market prices are reported at fair value for disclosure purposes. The majority of loans reported at fair value are measured for impairment by valuing the underlying collateral based on third-party appraisals or broker quotes. These loans are classified in Level 2 of the fair value hierarchy. In certain circumstances, appraised values or broker quotes are adjusted based on management's assumptions regarding current market conditions to determine fair value. These loans are classified in Level 3 of the fair value hierarchy.

Derivatives The fair value of non-exchange traded (over-the-counter) derivatives are obtained from third party market sources that use conventional valuation algorithms. The Company provides client data to the third party sources 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 cash collateral, if any. Although the Company has determined that the majority of the inputs used to value derivative contracts fall within Level 2 of the fair value hierarchy, the credit valuation adjustments utilize Level 3 inputs, such as estimates of credit spreads. The Company has determined that the impact of the credit valuation adjustments is not significant to the overall valuation of these derivatives. As a result, the Company has classified the derivative contract valuations in their entirety in Level 2 of the fair value hierarchy.

The fair value of foreign exchange options and transactions are derived from market spot and/or forward foreign exchange rates and are classified in Level 1 of the fair value hierarchy.

Other Real Estate Owned The fair value of OREO is generally based on third-party appraisals performed in accordance with professional appraisal standards and Bank regulatory requirements under the Financial Institutions Reform Recovery and Enforcement Act of 1989. Appraisals are reviewed and approved by the Company's appraisal department. OREO measured at fair value based on third party appraisals or observable market data is classified in Level 2 of the fair value hierarchy. In certain circumstances, fair value may be determined using a combination of inputs including appraised values, broker price opinions and recent market activity. The weighting of each input in the calculation of fair value is based on management's assumptions regarding market conditions. These assumptions cannot be observed in the market. OREO measured at fair value using non-observable inputs is classified in Level 3 of the fair value hierarchy.

Table of Contents

Securities

Securities are classified based on management's intention on the date of purchase. All securities are classified as available-for-sale or trading and are presented at fair value. Unrealized gains or losses on securities available-for-sale are excluded from net income but are included as a separate component of other comprehensive income, net of taxes. Premiums or discounts on securities available-for-sale are amortized or accreted into income using the interest method over the expected lives of the individual securities. The Company performs a quarterly assessment to determine whether a decline in fair value below amortized cost is other than temporary. Amortized cost includes adjustments made to the cost of an investment for accretion, amortization, collection of cash and previous other-than temporary impairment recognized in earnings. Other-than-temporary impairment exists when it is probable that the Company will be unable to recover the entire amortized cost basis of the security. If the decline in fair value is judged to be other than temporary, the security is written down to fair value which becomes the new cost basis and an impairment loss is recognized.

For debt securities, the classification of other-than-temporary impairment depends on whether the Company intends to sell the security or it more likely than not will be required to sell the security before recovery of its cost basis, and on the nature of the impairment. If the Company intends to sell a security or it is more likely than not it will be required to sell a security prior to recovery of its cost basis, the entire amount of impairment is recognized in earnings. If the Company does not intend to sell the security or it is not more likely than not it will be required to sell the security prior to recovery of its cost basis, the credit loss component of impairment is recognized in earnings and impairment associated with non-credit factors, such as market liquidity, is recognized in other comprehensive income net of tax. A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security's effective interest rate at the date of acquisition. The cost basis of an other-than-temporarily impaired security is written down by the amount of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value.

Realized gains or losses on sales of securities available-for-sale are recorded using the specific identification method. Trading securities are valued at fair value with any unrealized gains or losses included in net income.

Acquired Impaired Loans

Loans acquired for which it is probable that all contractual payments will not be received are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). These loans are recorded at fair value at the time of acquisition. Fair value of acquired impaired loans is determined using discounted cash flow methodology based on assumptions about the amount and timing of principal and interest payments, principal prepayments and principal defaults and losses, and current market rates. As estimated credit and market risks are included in the determination of fair value, no allowance for loan losses is established on the acquisition date. The excess of expected cash flows at acquisition over the initial investment in acquired loans ("accretable yield") is recorded as interest income over the life of the loans if the timing and amount of the future cash flows is reasonably estimable. Subsequent to acquisition, the Company aggregates loans into pools of loans with common risk characteristics. The Company updates its cash flow projections for covered loans accounted for under ASC 310-30 on a quarterly basis. Increases in estimated cash flows over those expected at the acquisition date and subsequent measurement periods are recognized as interest income, prospectively. Decreases in expected cash flows after the acquisition date and subsequent measurement periods are recognized by recording a provision for loan losses. 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.

Covered Loans The term covered loans refers to acquired loans that are covered under a loss sharing agreement with the FDIC. Covered loans are reported in the loan section of the consolidated balance sheets.

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

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

For commercial, non-homogenous loans that are not impaired, the Bank derives loss factors via a process that begins with estimates of probable losses inherent in the portfolio based upon various statistical analyses. The factors included in the analysis include loan type, migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, as well as analyses that reflect current trends and conditions. Each portfolio of smaller balance homogeneous loans including residential first mortgages, installment, revolving credit and most other consumer loans is collectively evaluated for loss potential. Management also establishes a qualitative reserve that considers overall portfolio indicators, including current and historical credit losses; delinquent, nonperforming and criticized loans; trends in volumes and terms of loans; and, an evaluation of overall credit quality and the credit process, including lending policies and procedures, economic, geographical, product, and other environmental factors. Management also considers trends in internally risk-rated exposures, criticized exposures, cash-basis loans, and historical and forecasted write-offs; and, a review of industry, geographic, and portfolio concentrations, including current developments within those segments. In addition, management considers the current business strategy and credit process, including credit-limit setting and compliance, credit approvals, loan underwriting criteria and loan workout procedures.

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

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

Table of Contents

The allowance for loan and lease losses is increased by the provision for credit losses charged to operating expense and is decreased by the amount of charge-offs, net of recoveries.

Reserve for Off-Balance Sheet Credit Commitments Off-balance sheet credit commitments include commitments to extend credit, letters of credit and financial guarantees. The reserve for off-balance sheet credit commitments is established by converting the off-balance sheet exposures to a loan equivalent amount and then applying the methodology used for loans described above. The reserve for off-balance sheet credit commitments is recorded as a liability in the Company's consolidated balance sheets. Increases and decreases in the reserve for off-balance sheet credit commitments are reflected as an allocation of provision expense from the allowance for loan and lease losses.

Allowance for Loan Losses on Covered Loans The Company updates its cash flow projections for covered loans accounted for under ASC 310-30 on a quarterly basis. Decreases in expected cash flows after the acquisition date and subsequent measurement periods are recognized by recording a provision for loan losses. See *Acquired Impaired Loans* for further discussion.

Other Real Estate Owned

OREO includes real estate acquired in full or partial satisfaction of a loan and is recorded at fair value less estimated costs to sell at the acquisition date. The excess of the carrying amount of a loan over the fair value of real estate acquired (less costs to sell) is charged to the allowance for loan and lease losses. If the fair value of OREO at initial acquisition exceeds the carrying amount of the loan, the excess is recorded either as a recovery to the allowance for loan and lease losses if a charge-off had previously been recorded, or as a gain on initial transfer in noninterest income. The fair value of OREO is generally based on a third party appraisal or, in certain circumstances, may be based on a combination of an appraised value, broker price opinions and recent sales activity. Declines in the fair value of OREO that occur subsequent to acquisition are charged to OREO expense in the period in which they are identified. Expenses for holding costs are charged to OREO expense as incurred.

Covered OREO includes acquired OREO that is covered under a loss sharing agreement with the FDIC. These assets were recorded at their fair value on acquisition date. Covered OREO is reported in Other real estate owned in the consolidated balance sheets.

Goodwill and Intangibles

The Company applies the acquisition method of accounting effective January 1, 2009. Previously, acquisitions were accounted for using the purchase method. Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the assets acquired and liabilities assumed, including contingent consideration, in the transaction at their acquisition date fair values. Management utilizes valuation techniques based on discounted cash flow analysis to determine these fair values. Any excess of the purchase price over amounts allocated to acquired assets, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Intangible assets include core deposit intangibles and client advisory contract intangibles (combined, customer-relationship intangibles) originating from acquisitions of financial services firms. Core deposit intangibles are amortized over a range of four to eight years and client advisory contract intangibles are amortized over various periods ranging from four to 20 years. At December 31, 2010, the weighted-average amortization period for the contract intangibles is 17.3 years.

Goodwill and customer-relationship intangibles are evaluated for impairment at least annually or more frequently if events or circumstances, such as changes in economic or market conditions, indicate that potential impairment exists. Given the volatility in the current economic environment, goodwill and customer-relationship intangibles are evaluated for impairment on a quarterly basis. Goodwill is tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment for which discrete financial information is available and regularly reviewed by management. Fair values of reporting units are determined using methods consistent with current market practices for valuing similar types of businesses. Valuations are generally based on market multiples of net income or gross revenues combined with an analysis of expected near and long-term financial performance. Management utilizes market information including market comparables and recent merger and acquisition transactions to validate the reasonableness of its valuations. If the fair value of the reporting unit, including goodwill, is determined to be less than the carrying amount of the reporting units, a further test is required to measure the amount of impairment. If an impairment loss exists, the carrying amount of the goodwill is adjusted to a new cost basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

Impairment testing of customer-relationship intangibles is performed at the individual asset level. Impairment exists when the carrying amount of an intangible asset is not recoverable and exceeds its fair value. The carrying amount of an intangible asset is not recoverable when the carrying amount of the asset exceeds the sum of undiscounted cash flows (cash inflows less cash outflows) associated with the use and/or disposition of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. The fair value of core deposit intangibles is determined using market-based core deposit premiums from recent deposit sale transactions. The fair value of client advisory contracts is based on discounted expected future cash flows. Management makes certain estimates and assumptions in determining the expected future cash flows from customer-relationship intangibles including account attrition, expected lives, discount rates, interest rates, servicing costs and other factors. Significant changes in these estimates and assumptions could adversely impact the valuation of these intangible assets. If an impairment loss exists, the carrying amount of the intangible asset is adjusted to a new cost basis. The new cost basis is amortized over the remaining useful life of the asset.

Noncontrolling Interest

The Company has both redeemable and non-redeemable noncontrolling interest. Non-redeemable noncontrolling interest in majority-owned affiliates is reported as a separate component of equity in Noncontrolling interest in 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. These interests are not considered to be permanent equity and are reported in the mezzanine section of the consolidated balance sheets at fair value. Consolidated net income is attributed to controlling and noncontrolling interest in the consolidated statements of income.

Share-based Compensation Plans

The Company measures the cost of employee services received in exchange for an award of equity instruments, such as stock options or restricted stock, based on the fair value of the award on the grant date. This cost is recognized in the consolidated statements of income over the vesting period of the award.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model into which the Company inputs its assumptions. The Company evaluates exercise behavior and values options separately for executive and non-executive employees. The Company uses historical data to predict option exercise and employee termination behavior. Expected volatilities are based on the historical volatility of the Company's stock. The expected term of options granted is derived from actual 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. As a practice, the exercise price of the Company's stock option grants equals the closing market price of the Company's common stock on the date of the grant.

Table of Contents

The Company issues restricted stock awards which vest over a five-year period during which time the holder receives dividends and has full voting rights. Twenty-five percent of the restricted stock awards vest two years from the date of grant, then twenty-five percent vests on each of the next three consecutive grant anniversary dates. Restricted stock is valued at the closing price of the Company's stock on the date of award.

Income Taxes

The calculation of the Company's income tax provision and related tax accruals requires the use of estimates and judgments. The provision for income taxes includes current and deferred income tax expense on net income adjusted for permanent and temporary differences in the tax and financial accounting for certain assets and liabilities. Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing temporary differences between the financial reporting and tax reporting basis of assets and liabilities, as well as for operating losses and tax credit carry forwards, using enacted tax laws and rates. On a quarterly basis, management evaluates its deferred tax assets to determine if these tax benefits are expected to be realized in future periods. This determination is based on facts and circumstances, including the Company's current and future tax outlook. To the extent a deferred tax asset is no longer considered "more likely than not" to be realized, a valuation allowance is established.

Accrued income taxes represent the estimated amounts due to or received from the various taxing jurisdictions where the Company has established a business presence. The balance also includes a contingent reserve for potential taxes, interest and penalties related to uncertain tax positions. On a quarterly basis, management evaluates the contingent tax accruals to determine if they are sufficiently reserved based on a probability assessment of potential outcomes. The determination is based on facts and circumstances, including the interpretation of existing law, new judicial or regulatory guidance and the status of tax audits. From time to time, there may be differences in opinion with respect to the tax treatment accorded transactions. If a tax position which was previously recognized on the financial statements is no longer "more likely than not" to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense.

Derivatives and Hedging

As part of its asset and liability management strategies, the Company uses interest-rate swaps to mitigate interest-rate risk associated with changes to (1) the fair value of certain fixed-rate deposits and borrowings (fair value hedges) and (2) certain cash flows related to future interest payments on variable rate loans (cash flow hedges). Interest-rate swap agreements involve the exchange of fixed and variable rate interest payments between counterparties based upon a notional principal amount and maturity date. The Company evaluates the creditworthiness of counterparties prior to entering into derivative contracts, and has established counterparty risk limits and monitoring procedures to reduce the risk of loss due to nonperformance. The Company recognizes derivatives as assets or liabilities on the consolidated balance sheets at their fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction. The Company's interest-rate risk management contracts qualify for hedge accounting treatment under ASC Topic 815, *Derivatives and Hedging.*

The Company documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction at the time the derivative contract is executed. This includes designating each derivative contract as either (i) a "fair value hedge" which is a hedge of a recognized asset or liability or (ii) a "cash flow hedge" which hedges a forecasted transaction or the variability of the cash flows to be received or paid related to a recognized asset or liability. All derivatives designated as fair value or cash flow hedges are linked to specific hedged items or to groups of specific assets and liabilities on the balance sheet.

Table of Contents

Both at inception and at least quarterly thereafter, the Company assesses whether the derivatives used in hedging transactions are highly effective (as defined in the guidance) in offsetting changes in either the fair value or cash flows of the hedged item. Retroactive effectiveness is assessed, as well as the continued expectation that the hedge will remain effective prospectively.

For cash flow hedges, in which derivatives hedge the variability of cash flows (interest payments) on loans that are indexed to U.S. dollar LIBOR or the Bank's prime interest rate, the effectiveness is assessed prospectively at the inception of the hedge, and prospectively and retrospectively at least quarterly thereafter.

Ineffectiveness of the cash flow hedges is measured using the hypothetical derivative method described in Derivatives Implementation Group Issue G7, *"Measuring the Ineffectiveness of a Cash Flow Hedge of Interest Rate Risk under Paragraph 30(b) When the Shortcut Method is not Applied."* For cash flow hedges, the effective portion of the changes in the derivatives' fair value is not included in current earnings but is reported as Accumulated other comprehensive income (loss) ("AOCI"). When the cash flows associated with the hedged item are realized, the gain or loss included in AOCI is recognized on the same line in the consolidated statements of income as the hedged item, i.e., included in Interest income on loans and leases. 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.

For fair value hedges, the Company uses interest-rate swaps to hedge the fair value of certain certificates of deposit, subordinated debt and other long-term debt. The certificates of deposit are single maturity, fixed-rate, non-callable, negotiable certificates of deposit. The certificates cannot be redeemed early except in the case of the holder's death. The interest-rate swaps are executed at the time the deposit transactions are negotiated. Interest-rate swaps are structured so that all key terms of the swaps match those of the underlying deposit or debt transactions, therefore ensuring there is no hedge ineffectiveness at inception. The Company ensures that the interest-rate swaps meet the requirements for utilizing the short cut method in accordance with the accounting guidance and maintains appropriate documentation for each interest-rate swap. On a quarterly basis, fair value hedges are analyzed to ensure that the key terms of the hedged items and hedging instruments remain unchanged, and the hedging counterparties are evaluated to ensure that there are no adverse developments regarding counterparty default, thus ensuring continuous effectiveness. For fair value hedges, the effective portion of the changes in the fair value of derivatives is reflected in current earnings, on the same line in the consolidated statements of income as the related hedged item. For both fair value and cash flow hedges, the periodic accrual of interest receivable or payable on interest rate swaps is recorded as an adjustment to net interest income for the hedged items.

The Company discontinues hedge accounting prospectively when (i) a derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item, (ii) a derivative expires or is sold, terminated or exercised, (iii) a derivative is un-designated as a hedge, because it is unlikely that a forecasted transaction will occur or (iv) the Company determines that designation of a derivative as a hedge is no longer appropriate. If a fair value hedge derivative instrument is terminated or the hedge designation removed, the previous adjustments to the carrying amount of the hedged asset or liability would be subsequently accounted for in the same manner as other components of the carrying amount of that asset or liability. For interest-earning assets and interest-bearing liabilities, such adjustments would be amortized into earnings over the remaining life of the respective asset or liability. If a cash flow derivative instrument is terminated or the hedge designation is removed, related amounts reported in other comprehensive income are reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

The Company also offers various derivative products to clients and enters into derivative transactions in due course. These transactions are not linked to specific Company assets or liabilities in the consolidated balance sheets or to forecasted transactions in a hedge relationship and, therefore, do not qualify for hedge accounting. The contracts are marked-to-market each reporting period with

Table of Contents

changes in fair value recorded as part of Other noninterest income in the consolidated statements of income. Fair values are determined from verifiable third-party sources that have considerable experience with the derivative markets. 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 Company enters into foreign currency option contracts with clients to assist them in hedging their economic exposures arising out of foreign-currency denominated commercial transactions. Foreign currency options allow the counterparty to purchase or sell a foreign currency at a specified date and price. These option contracts are offset by paired trades with third-party banks. The Company also takes proprietary currency positions within risk limits established by the Company's Asset/Liability Management Committee. Both the realized and unrealized gains and losses on foreign exchange contracts are recorded in Other noninterest income in the consolidated statements of income.

2010 HIGHLIGHTS

In 2010, consolidated net income attributable to City National Corporation was $131.2 million and consolidated net income available to common shareholders was $125.5 million, or $2.36 per diluted common share. In 2009, consolidated net income attributable to City National Corporation was $51.3 million and consolidated net income available to common shareholders was $25.4 million, or $0.50 per diluted common share. The increase in net income available to common shareholders is primarily due to lower provision for credit losses on loans and leases, excluding loans covered by the Company's loss sharing agreement with the FDIC. The Company recognized $103.0 million of provision expense on non-FDIC-covered loans in 2010, compared to $285.0 million in 2009, a decrease of 64 percent. The increase in net income available to common shareholders is also attributed to higher net interest income resulting from the Company's acquisition of ICB in December 2009 and acquisitions of FPB and SWB in May 2010, offset by higher noninterest expense and income tax expense.

Full-year revenue, which consists of net interest income and noninterest income, was $1.09 billion, an increase of 19 percent from $916.3 million for 2009.

Fully taxable-equivalent net interest income, including dividend income, amounted to $743.5 million in 2010, an increase of 17 percent from $637.9 million for 2009. Fully taxable-equivalent net interest income amounted to $740.7 million in 2010 compared to $635.2 million in 2009.

The Company's net interest margin was 3.86 percent in 2010, compared with 3.91 percent in 2009. The Company's prime lending rate averaged 3.25 percent for 2010 and 2009.

Noninterest income was $361.4 million for 2010, up 24 percent from $292.2 million for 2009, due principally to an increase in net FDIC loss sharing income from the Company's FDIC-assisted acquisitions of ICB, FPB and SWB and an increase in wealth management revenue. Noninterest income accounted for 33 percent of the Company's revenue in 2010, slightly up from 32 percent in 2009.

Noninterest expense for 2010 was $751.3 million, up 29 percent from $581.1 million in 2009. Contributing to the year-over-year increase were the Company's three FDIC-assisted acquisitions and higher compensation costs, legal and professional fees, and OREO expense.

The Company's effective tax rate for 2010 was equal to 16.2 percent of pretax income compared to a tax benefit of 3.8 percent of pretax income for 2009. The higher tax rate was attributable to higher pretax income offset by an income tax benefit for a $19 million tax settlement with the California Franchise Tax Board.

Table of Contents

Total assets at December 31, 2010 were $21.35 billion, up 1 percent from $21.08 billion at the end of 2009. The increase from December 31, 2009 reflects the Company's two FDIC-assisted acquisitions in May 2010. Total average assets increased 19 percent to $21.16 billion for 2010 from $17.71 billion for 2009.

Loans and leases, excluding covered loans, were $11.39 billion, down 6 percent from $12.15 billion at 2009. Average loans for 2010, on the same basis, were $11.58 billion, down 6 percent from $12.30 billion in 2009.

The allowance for loan and lease losses on non-FDIC-covered loans decreased to $257.0 million for 2010 from $288.5 million for 2009. The Company's allowance equals 2.26 percent of total loans and leases, excluding covered loans, compared with 2.38 percent at the end of 2009.

Net loan charge-offs were $130.3 million for 2010, down 42 percent from $225.9 million for 2009. Net loan charge-offs for 2010 were 1.13 percent of average total loans and leases, excluding covered loans, down from 1.84 percent for 2009.

Nonaccrual loans totaled $190.9 million as of December 31, 2010, compared with $388.7 million at December 31, 2009. At December 31, 2010, nonperforming assets, excluding covered assets, were $248.2 million compared with $442.0 million at December 31, 2009.

Average securities for 2010 totaled $4.68 billion, an increase of 41 percent from $3.33 billion for 2009. The increases reflect the Company's strong deposit growth and relatively week loan demand due to economic conditions.

Year-end deposits for 2010 grew to $18.18 billion, up 5 percent from $17.38 billion for 2009. Average deposits grew to $17.87 billion for 2010, a 25 percent increase from average deposits of $14.35 billion in 2009. Average core deposits totaled $16.76 billion for 2010, a 28 percent increase from the $13.05 billion in 2009, and now amount to approximately 94 percent of total average deposit balances.

The Company's ratio of Tier 1 common shareholders' equity to risk-based assets was 10.3 percent at December 31, 2010 compared to 8.9 percent in 2009. Refer to the "Capital" section starting on page 105 for further discussion of this non-GAAP measure.

On October 16, 2010, the Company completed the redemption of $250 million of 9.625 percent cumulative trust preferred securities, using most of the net proceeds from a third-quarter 2010 issue of $300 million of 10-year 5.25 percent senior notes.

On November 15, 2010, the Company completed a relatively small, but strategically important acquisition of a Los Angeles, California-based accounting software firm, Datafaction, which will complement the Bank's proprietary cash management solutions available to its business clients.

RECENT DEVELOPMENTS

On February 11, 2011, the Company acquired a branch in San Jose, California. The Company assumed $8.4 million of deposits. The acquisition did not include the branch's loan portfolio. The new San Jose branch is the Company's 11th bank branch in Northern California.

OUTLOOK

The Company's management anticipates increased profitability in 2011, as asset quality continues to improve and annual credit costs move lower than the $103 million recorded in 2010 (excluding provisions related to FDIC-covered loans). However, it is likely that slow economic growth, limited loan demand, conditions in the commercial real estate market, and the continuing decline of covered assets will moderate overall average loan growth. Low interest rates will continue to place pressure on the

Table of Contents

Company's net interest margin and revenue growth. Management expects to increase the Company's already-strong capital ratios in 2011.

RESULTS OF OPERATIONS

Summary

A summary of the Company's results of operations on a fully taxable-equivalent basis for each of the last five years ended December 31 follows:

(in thousands, except per share amounts) (1)	Year Ended 2010	Increase (Decrease) Amount	Increase (Decrease) %	Year Ended 2009	Increase (Decrease) Amount	Increase (Decrease) %	Year Ended December 31, 2008	2007	2006
Interest income (2)	$ 840,573	$ 120,378	17	$ 720,195	$ (76,684)	(10)	$ 796,879	$ 907,083	$ 839,223
Interest expense	99,871	14,847	17	85,024	(99,768)	(54)	184,792	285,829	220,405
Net interest income	740,702	105,531	17	635,171	23,084	4	612,087	621,254	618,818
Provision for credit losses on loans and leases, excluding covered loans	103,000	(182,000)	(64)	285,000	158,000	124	127,000	20,000	(610)
Provision for losses on covered loans	76,218	76,218	NM						
Noninterest income	361,375	69,178	24	292,197	25,213	9	266,984	303,202	242,370
Noninterest expense:									
Staff expense	409,823	89,547	28	320,276	(34,237)	(10)	354,513	328,672	293,066
Other expense	341,507	80,696	31	260,811	27,561	12	233,250	206,259	182,980
Total	751,330	170,243	29	581,087	(6,676)	(1)	587,763	534,931	476,046
Income before income taxes	171,529	110,248	180	61,281	(103,027)	(63)	164,308	369,525	385,752
Income taxes	26,055	27,941	(1,481)	(1,886)	(43,669)	(105)	41,783	124,974	133,363
Less: Adjustments (2)	10,377	(741)	(7)	11,118	(1,073)	(9)	12,191	12,982	12,908
Net income	$ 135,097	$ 83,048	160	$ 52,049	(58,285)	(53)	$ 110,334	$ 231,569	$ 239,481
Less: Net income attributable to noncontrolling interest	3,920	3,210	452	710	(4,668)	(87)	5,378	8,856	5,958
Net income attributable to City National Corporation	$ 131,177	$ 79,838	156	$ 51,339	(53,617)	(51)	$ 104,956	$ 222,713	$ 233,523
Less: Dividends and accretion on preferred stock	5,702	(20,201)	(78)	25,903	23,458	959	2,445		
Net income available to common shareholders	$ 125,475	$ 100,039	393	$ 25,436	$ (77,075)	(75)	$ 102,511	$ 222,713	$ 233,523

Net income per common share, diluted	$	2.36	$	1.86	372	$	0.50	$	(1.61)	(76)	$	2.11	$	4.50	$	4.65

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

(2) Includes amounts to convert nontaxable income to a fully taxable-equivalent yield. To compare tax-exempt asset yields to taxable yields, amounts are adjusted to pre-tax equivalents based on the applicable statutory tax rate.

Net Interest Income

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a fully taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets.

Table of Contents

The following table presents the components of net interest income on a fully taxable-equivalent basis for the last five years:

Net Interest Income Summary

	2010			2009		
(in thousands)	Average Balance	Interest income/ expense (1)(4)	Average interest rate	Average Balance	Interest income/ expense (1)(4)	Average interest rate
Assets (2)						
Interest-earning assets						
Loans and leases						
Commercial	$ 4,390,834	$ 194,568	4.43%	$ 4,701,386	$ 199,647	4.25%
Commercial real estate mortgages	2,059,680	114,542	5.56	2,171,353	121,515	5.60
Residential mortgages	3,553,347	186,526	5.25	3,481,227	192,774	5.54
Real estate construction	660,603	26,132	3.96	1,094,332	37,154	3.40
Equity lines of credit	742,862	26,567	3.58	674,459	23,417	3.47
Installment	169,054	8,775	5.19	173,862	8,842	5.09
Total loans and leases, excluding covered loans (3)	11,576,380	557,110	4.81	12,296,619	583,349	4.74
Covered loans	1,940,316	138,451	7.14	66,470	4,052	6.10
Total loans and leases	13,516,696	695,561	5.15	12,363,089	587,401	4.75
Due from banks interest-bearing	678,929	1,890	0.28	361,571	1,486	0.41
Federal funds sold and securities purchased under resale agreements	249,381	634	0.25	186,123	264	0.14
Securities available-for-sale	4,618,896	142,419	3.08	3,234,303	130,213	4.03
Trading securities	58,410	69	0.12	92,932	831	0.89
Other interest-earning assets	147,395	2,787	1.89	77,469	2,743	3.54
Total interest-earning assets	19,269,707	843,360	4.38	16,315,487	722,938	4.43
Allowance for loan and lease losses	(315,228)			(254,610)		
Cash and due from banks	237,853			320,010		
Other non-earning assets	1,964,329			1,330,608		
Total assets	$ 21,156,661			$ 17,711,495		
Liabilities and Equity (2)						
Interest-bearing deposits						
Interest checking accounts	$ 1,998,990	$ 4,308	0.22	$ 1,540,496	$ 3,980	0.26
Money market accounts	5,911,058	31,591	0.53	4,084,090	32,068	0.79
Savings deposits	317,263	1,508	0.48	239,441	1,590	0.66
Time deposits under $100,000	430,557	2,448	0.57	239,680	3,222	1.34
Time deposits $100,000 and over	1,110,996	9,175	0.83	1,303,174	19,569	1.50
Total interest-bearing deposits	9,768,864	49,030	0.50	7,406,881	60,429	0.82
Federal funds purchased and securities sold under repurchase agreements	163,309	5,292	3.24	414,672	8,292	2.00
Other borrowings	846,513	45,549	5.38	542,521	16,303	3.01
Total interest-bearing liabilities	10,778,686	99,871	0.93	8,364,074	85,024	1.02
Noninterest-bearing deposits	8,099,528			6,945,017		
Other liabilities	317,338			241,482		
Total equity	1,961,109			2,160,922		
Total liabilities and equity	$ 21,156,661			$ 17,711,495		
Net interest spread			3.45%			3.41%
		$ 743,489			$ 637,914	

Fully taxable-equivalent net interest and dividend income				
Net interest margin		3.86%		3.91%
Less: Dividend income included in other income	2,787		2,743	
Fully taxable-equivalent net interest income	$ 740,702		$ 635,171	

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

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

(3) Includes average nonaccrual loans of $278,705, $351,215, $128,296, $28,512, and $16,725 for 2010, 2009, 2008, 2007, and 2006, respectively.

(4) Loan income includes loan fees of $20,555, $18,381, $17,008, $15,684, and $16,249 for 2010, 2009, 2008, 2007, and 2006, respectively.

Table of Contents

Net Interest Income Summary

2008 Average Balance	2008 Interest income/ expense (1)(4)	2008 Average interest rate	2007 Average Balance	2007 Interest income/ expense (1)(4)	2007 Average interest rate	2006 Average Balance	2006 Interest income/ expense (1)(4)	2006 Average interest rate
$ 4,662,641	$ 252,911	5.42%	$ 4,279,523	$ 310,869	7.26%	$ 3,882,466	$ 268,364	6.91%
2,057,459	134,511	6.54	1,878,671	136,446	7.26	1,786,024	133,429	7.47
3,293,166	184,818	5.61	3,020,316	166,823	5.52	2,764,599	147,573	5.34
1,406,181	76,039	5.41	1,291,708	110,483	8.55	955,456	84,462	8.84
503,428	22,340	4.44	404,493	30,456	7.53	364,744	27,938	7.66
165,840	9,841	5.93	182,700	13,539	7.41	195,074	14,760	7.57
12,088,715	680,460	5.63	11,057,411	768,616	6.95	9,948,363	676,526	6.80
		0.00			0.00			0.00
12,088,715	680,460	5.63	11,057,411	768,616	6.95	9,948,363	676,526	6.80
96,872	1,896	1.96	88,787	2,604	2.93	54,843	1,161	2.12
10,037	161	1.61	13,066	686	5.25	30,417	1,525	5.01
2,292,932	112,437	4.90	2,757,304	131,218	4.76	3,438,002	157,208	4.57
105,353	1,925	1.83	76,185	3,959	5.20	50,003	2,803	5.61
76,258	4,297	5.63	61,370	3,771	6.14	46,627	2,532	5.43
14,670,167	801,176	5.46	14,054,123	910,854	6.48	13,568,255	841,755	6.20
(178,587)			(157,012)			(157,433)		
370,468			423,526			428,742		
1,166,773			1,050,127			875,948		
$ 16,028,821			$ 15,370,764			$ 14,715,512		
$ 851,029	$ 5,688	0.67	$ 784,293	$ 4,739	0.60	$ 758,164	$ 2,427	0.32
3,760,516	72,212	1.92	3,654,508	111,827	3.06	3,303,373	76,293	2.31
137,779	556	0.40	147,764	715	0.48	168,853	685	0.41
220,259	6,695	3.04	240,388	9,518	3.96	183,972	6,355	3.45
1,299,462	37,840	2.91	1,876,184	87,881	4.68	1,721,292	73,264	4.26
6,269,045	122,991	1.96	6,703,137	214,680	3.20	6,135,654	159,024	2.59
1,098,731	27,591	2.51	662,928	32,491	4.90	541,671	26,463	4.89
1,068,491	34,210	3.20	644,633	38,658	6.00	627,409	34,918	5.57
8,436,267	184,792	2.19	8,010,698	285,829	3.57	7,304,734	220,405	3.02
5,630,597			5,533,246			5,734,273		
255,865			238,340			210,779		
1,706,092			1,588,480			1,465,726		
$ 16,028,821			$ 15,370,764			$ 14,715,512		
		3.27%			2.91%			3.18%
	$ 616,384			$ 625,025			$ 621,350	

4.20%	4.45%	4.58%
4,297	3,771	2,532
$ 612,087	$ 621,254	$ 618,818

Table of Contents

Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume) and mix of interest-earning assets and interest-bearing liabilities. The following table provides a breakdown of the changes in net interest income on a fully taxable-equivalent basis and dividend income due to volume and rate between 2010 and 2009, as well as between 2009 and 2008. The impact of interest rate swaps, which affect interest income on loans and leases and interest expense on deposits and borrowings, is included in rate changes.

Changes In Net Interest Income

	2010 vs 2009			2009 vs 2008		
	Increase (decrease) due to		Net increase (decrease)	Increase (decrease) due to		Net increase (decrease)
(in thousands)	Volume	Rate		Volume	Rate	
Interest earned on:						
Total loans and leases (1)	$ 56,852	$ 51,308	$ 108,160	$ 15,178	$ (108,237)	$ (93,059)
Securities available-for-sale	47,501	(35,295)	12,206	40,262	(22,486)	17,776
Due from banks interest-bearing	987	(583)	404	2,012	(2,422)	(410)
Trading securities	(229)	(533)	(762)	(204)	(890)	(1,094)
Federal funds sold and securities purchased under resale agreements	112	258	370	379	(276)	103
Other interest-earning assets	1,715	(1,671)	44	67	(1,621)	(1,554)
Total interest-earning assets	106,938	13,484	120,422	57,694	(135,932)	(78,238)
Interest paid on:						
Interest checking deposits	1,028	(700)	328	3,002	(4,710)	(1,708)
Money market deposits	11,961	(12,438)	(477)	5,720	(45,864)	(40,144)
Savings deposits	424	(506)	(82)	550	484	1,034
Time deposits	(19)	(11,149)	(11,168)	666	(22,410)	(21,744)
Total borrowings	1,426	24,820	26,246	(31,639)	(5,567)	(37,206)
Total interest-bearing liabilities	14,820	27	14,847	(21,701)	(78,067)	(99,768)
	$ 92,118	$ 13,457	$ 105,575	$ 79,395	$ (57,865)	$ 21,530

(1) Includes covered loans.

Comparison of 2010 with 2009

Net interest income was $730.3 million for 2010, an increase of 17 percent from $624.1 million for 2009. The increase is attributed to interest income on the Company's covered loan portfolio from its acquisition of ICB in December 2009 and FPB and SWB in May 2010. Interest income on covered loans also included $20.6 million of interest income from the accelerated accretable yield recognition on FDIC-covered loans that were paid off or fully charged off during the year. The increase was partially offset by lower interest income on the Company's non-covered loan portfolio, which decreased from an average loan balance of $12.30 billion in 2009 to $11.58 billion in 2010. The low levels of non-covered loan growth reflect relatively weak loan demand due to challenging business and economic conditions, along with the Company's continued progress in reducing the number of problem loans. The Company's prime lending rate for 2010 was 3.25 percent, unchanged from the prior year. The increase in net interest income was also due to strong growth in deposits, which were invested in securities available-for-sale and other liquid assets. Interest income on securities available-for-sale increased 10 percent to $136.7 million in 2010 from 2009. The increase was a result of a 43 percent increase in average securities available-for-sale in 2010, offset by lower yields.

Total interest expense was $99.9 million in 2010 and $85.0 million in 2009. Interest expense on deposits was $49.0 million in 2010 compared to $60.4 million in 2009, a 19 percent decrease, and was a

result of lower interest rates, partially offset by a 32 percent increase in average interest-bearing deposit balances from 2009 to 2010. Interest expense on borrowings increased to $50.8 million in 2010 compared to $24.6 million in 2009 and was primarily due to an increase in higher-cost borrowings resulting from the issuance of $180 million of subordinated debt in the third quarter of 2009 and $250 million of trust preferred securities in December 2009, which was redeemed in October 2010. The Company also issued $300 million of senior notes in September 2010.

The net settlement of interest-rate swaps increased interest income by $25.8 million for 2010 and $27.5 million for 2009.

Fully taxable-equivalent net interest income, which includes amounts to convert nontaxable income to fully taxable-equivalent amounts, increased to $740.7 million for 2010 compared with $635.2 million for 2009. Fully taxable-equivalent net interest and dividend income was $743.5 million and $637.9 million in 2010 and 2009, respectively. The average yield on earning assets for 2010 decreased to 4.38 percent, or by 5 basis points, compared with 4.43 percent for 2009. The average cost of interest-bearing liabilities decreased to 0.93 percent, or by 9 basis points, from 1.02 percent for 2009. The fully taxable net interest margin declined to 3.86 percent for 2010 from 3.91 percent for 2009. Of the total $105.6 million increase in fully taxable-equivalent net interest and dividend income, approximately $92.1 million was generated through covered loans and securities growth, offset by an increase in deposits (volume variance). The remaining $13.5 million increase was primarily attributable to higher yields from the covered loan portfolio and lower rates earned on remaining interest-earning assets and paid on interest-bearing deposits (rate variance). The higher yields on the covered loan portfolio were largely due to the acceleration of accretable yield on acquired loans as discussed above.

Average loans and leases, excluding covered loans, were $11.58 billion, a 6 percent decrease from average loans and leases of $12.30 billion for 2009. Average commercial loans and commercial real estate mortgage loans were 7 percent and 5 percent lower from 2009, respectively. Average residential mortgage loans, nearly all of which are made to the Company's private banking clients, increased 2 percent from 2009. Average construction loans decreased 40 percent from prior year. Average covered loans increased to $1.94 billion in 2010 from $66.5 million in 2009.

Average total securities, which include trading securities, were $4.68 billion in 2010, a 41 percent increase from 2009. The increase in average securities from prior year reflects the Company's strong deposit growth and relatively weak loan demand.

Average deposits increased 25 percent to $17.87 billion in 2010 from $14.35 billion for 2009. Average core deposits, which continued to provide substantial benefits to the Bank's cost of funds, increased 28 percent to $16.76 billion from $13.05 billion for 2009. Average core deposits, which do not include certificates of deposits of $100,000 or more, represented 94 percent of the total average deposit balance for the year, compared to 91 percent for the prior year. Average interest-bearing deposits increased 32 percent to $9.77 billion from $7.41 billion for 2009, and average noninterest-bearing deposits increased 17 percent to $8.10 billion from $6.95 billion in 2009.

Comparison of 2009 with 2008

Net interest income increased to $624.1 million for 2009 from $599.9 million for 2008. The increase in net interest income was primarily a result of lower funding costs in 2009. Interest expense on deposits was $60.4 million in 2009 compared to $123.0 million in 2008, a 51 percent decrease, and was a result of declining interest rates, partially offset by an 18 percent increase in average interest-bearing deposit balances from 2008 to 2009. Interest expense on borrowings decreased to $24.6 million in 2009 compared to $61.8 million in 2008 and was due to lower average balances on federal funds purchased and other short-term borrowings in 2009. In addition to lower funding costs, interest income on loans declined from $676.4 million in 2008 to $582.8 million in 2009 as a result of declining interest rates and low levels of loan growth, not including loans assumed from the acquisition of ICB on

Table of Contents

December 18, 2009. The Company's average prime rate for 2009 decreased by 184 basis points to 3.25 percent compared with 2008. The net settlement of interest-rate swaps increased interest income by $27.5 million for 2009 and increased interest income by $12.8 million for 2008. The favorable impact of interest-rate swaps on net interest income compared with 2008 only partially offset the impact of lower rates on loan yields.

Fully taxable-equivalent net interest income, which includes amounts to convert nontaxable income to fully taxable-equivalent amounts, increased to $635.2 million for 2009 compared with $612.1 million for 2008. Fully taxable-equivalent net interest and dividend income was $637.9 million and $616.4 million in 2009 and 2008, respectively. The average yield on earning assets decreased to 4.43 percent, or by 103 basis points, for 2009 compared with 5.46 percent for 2008. The average cost of interest-bearing liabilities decreased to 1.02 percent, or by 117 basis points, from 2.19 percent for 2008. The fully taxable net interest margin declined to 3.91 percent for 2009 from 4.20 percent for 2008. Lower funding costs and growth in noninterest-bearing deposits reduced the impact of the 103 basis point decrease in the yield on earning assets compared with 2008. Of the total $21.5 million increase in fully taxable-equivalent net interest and dividend income, approximately $79.4 million of the increase was generated through loan and securities growth as well as a decline in borrowings (volume variance) and was partially offset by a $57.8 million decrease in net interest income due to declining rates earned on interest-earning assets and paid on interest-bearing liabilities (rate variance).

Average loans and leases, excluding covered loans, grew to $12.30 billion, a 2 percent increase from average loans and leases of $12.09 billion for 2008. Average commercial loans were virtually unchanged from 2008. Average commercial real estate mortgages grew 6 percent from prior year. Average residential mortgage loans, nearly all of which are made to the Company's private banking clients, increased 6 percent from 2008. Average construction loans, which decreased 22 percent from prior year, are a portfolio that is diverse in terms of geography and product type. It consists primarily of recourse loans to well-established real estate developers and is generally located in established urban markets. Most of these developers are clients with whom the Company has significant long-term relationships.

Average total securities, which include trading securities, were $3.33 billion in 2009, an increase of $0.93 billion, or 39 percent, from 2008.

Average deposits increased 21 percent to $14.35 billion in 2009 from $11.90 billion for 2008. Average core deposits increased 23 percent to $13.05 billion from $10.60 billion for 2008, and represented 91 percent of the total average deposit balance for the year, compared to 89 percent for the prior year. Average interest-bearing deposits increased 18 percent to $7.41 billion in 2009 from $6.27 billion for 2008, and average noninterest-bearing deposits increased 23 percent to $6.95 billion in 2009 from $5.63 billion in 2008.

Provision for Credit Losses

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

The Company recorded expense of $103.0 million, $285.0 million and $127.0 million through the provision for credit losses on loans and leases, excluding covered loans, in 2010, 2009 and 2008, respectively. The provision reflects management's continuing assessment of the credit quality of the

Company's loan portfolio, which is affected by a broad range of economic factors. Additional factors affecting the provision include net loan charge-offs, nonaccrual loans, specific reserves, risk rating migration and changes in the portfolio size and composition. See "Balance Sheet Analysis Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments" for further information on factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for loan and lease losses.

Nonaccrual loans, excluding covered loans, decreased to $190.9 million at December 31, 2010, from $388.7 million at December 31, 2009. The decrease in nonaccrual loans relates primarily to the real estate construction, commercial and commercial real estate mortgage loan portfolios. Total nonperforming assets, excluding covered assets, were $248.2 million, or 2.17 percent of total loans and leases and OREO, excluding covered assets, at December 31, 2010. This compares with $442.0 million, or 3.62 percent, at the end of 2009.

Net loan charge-offs were $130.3 million, or 1.13 percent of total loans and leases, excluding covered loans, for the year ended December 31, 2010, compared with net loan charge-offs of $225.9 million and $68.5 million for the years ended December 31, 2009 and 2008, respectively. The decrease in net charge-offs in 2010 compared to 2009 occurred primarily in the Company's commercial and real estate construction loan portfolios.

Covered loans represent loans acquired from the FDIC that are subject to a loss sharing agreement, and are primarily accounted for as acquired impaired loans under ASC 310-30. The provision for losses on covered loans is the expense recognized in the consolidated statements of income related primarily to impairment losses resulting from the Company's quarterly review and update of cash flow projections on its covered loan portfolio. In 2010, the Company recorded provision for losses on covered loans of $76.2 million. Approximately $0.4 million of the provision on covered loans related to a small population of acquired loans that are outside the scope of ASC 310-30. The loss on covered loans is mainly the result of lower projected interest cash flows due to the Company's revised default forecasts, though credit losses remain in line with previous expectations. Revisions to the default forecasts in 2010 are based on the results of management's review of the credit quality of the covered loans and the analysis of the loan performance data since the acquisition of the covered loans. The Company will continue updating cash flow projections on the covered loans on a quarterly basis. Due to the uncertainty in the future performance of the covered loans, additional impairments may be recognized in the future.

As of December 31, 2010, the allowance for loan losses for covered loans was $67.4 million. There was no allowance for loan losses for covered loans as of December 31, 2009. The allowance is included in Covered loans on the consolidated balance sheets.

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 December 31, 2010, there were no acquired impaired covered loans accounted for under ASC 310-30 that were on nonaccrual status. Of the population of covered loans that are accounted for outside the scope of ASC 310-30, the Company had $2.6 million of acquired covered loans that were on nonaccrual status and were considered to be impaired.

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

Table of Contents

Noninterest Income

Noninterest income for the year totaled $361.4 million, an increase of 24 percent, from $292.2 million in 2009. Noninterest income increased 9 percent, between 2009 and 2008. Noninterest income represented 33 percent of total revenues in 2010, compared with 32 percent and 31 percent in 2009 and 2008, respectively.

A breakdown of noninterest income by category is provided in the table below:

Analysis of Changes in Noninterest Income

(in thousands) (1)	2010	Increase (Decrease) Amount	%	2009	Increase (Decrease) Amount	%	2008
Trust and investment fees	$ 134,727	$ 17,665	15.1	$ 117,062	$ (15,152)	(11.5)	$ 132,214
Brokerage and mutual fund fees	23,742	(4,190)	(15.0)	27,932	(45,514)	(62.0)	73,446
Total wealth management fees	158,469	13,475	9.3	144,994	(60,666)	(29.5)	205,660
Cash management and deposit transaction fees	47,593	(4,076)	(7.9)	51,669	3,362	7.0	48,307
International services fees	31,297	290	0.9	31,007	(1,442)	(4.4)	32,449
Bank-owned life insurance	2,736	(317)	(10.4)	3,053	301	10.9	2,752
FDIC loss sharing income, net	63,335	62,612	8,660.0	723	723	NM	
Other noninterest income	29,407	5,979	25.5	23,428	(5,532)	(19.1)	28,960
Total noninterest income before gain (loss)	332,837	77,963	30.6	254,874	(63,254)	(19.9)	318,128
Gain (loss) on disposal of assets	2,837	1,561	122.3	1,276	1,629	461.5	(353)
Gain on acquisition	27,339	(10,867)	(28.4)	38,206	38,206	NM	
Gain (loss) on sale of securities	393	(13,893)	(97.2)	14,286	15,797	1,045.5	(1,511)
Impairment loss on securities	(2,031)	14,414	87.6	(16,445)	32,835	66.6	(49,280)
Total noninterest income	$ 361,375	$ 69,178	23.7	$ 292,197	$ 25,213	9.4	$ 266,984

NM Not meaningful.

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

Wealth Management

The Company provides various trust, investment, brokerage and wealth advisory services to its individual and business clients. The Company delivers these services through the Bank's wealth management division as well as through its wealth management affiliates. Trust services are provided only by the Bank. Trust and investment fee revenue includes fees from trust, investment and asset management, and other wealth advisory services. A portion of these fees is based on the market value of client assets managed, advised, administered or held in custody. The remaining portion of these fees is based on the specific service provided, such as estate and financial planning services, or may be fixed fees. For those fees based on market valuations, the mix of assets held in client accounts, as well as the type of managed account, impacts how closely changes in trust and investment fee income correlate with changes in the financial markets. Changes in market valuations are reflected in fee income primarily on a trailing-quarter basis. Trust and investment fees were $134.7 million, an increase of 15 percent from $117.1 million for 2009. Money market mutual fund and brokerage fees were $23.7 million, down 15 percent from $27.9 million for 2009, due to lower balances, historically low short-term interest rates and reduced spreads on brokerage transactions.

Assets under management ("AUM") include assets for which the Company makes investment decisions on behalf of its clients and assets under advisement for which the Company receives advisory fees from its clients. Assets under administration ("AUA") are assets the Company holds in a fiduciary

Table of Contents

capacity or for which it provides non-advisory services. The table below provides a summary of AUM and AUA:

(in millions)	December 31, 2010	December 31, 2009	% Change
Assets Under Management	$ 36,754	$ 35,239	4
Assets Under Administration			
Brokerage	5,929	4,733	25
Custody and other fiduciary	15,788	15,147	4
Subtotal	21,717	19,880	9
Total assets under management or administration (1)	$ 58,471	$ 55,119	6

(1) Excludes $21.32 billion and $13.41 billion of assets under management for asset managers in which the Company held a noncontrolling ownership interest as of December 31, 2010 and December 31, 2009, respectively.

AUM increased 4 percent and assets under management or administration increased 6 percent from December 31, 2009. The increase in AUM was due to higher equity market values as well as new custodial business.

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

	% of AUM	
Investment (1)	December 31, 2010	December 31, 2009
Equities	40%	36%
U.S. fixed income	25	27
Cash and cash equivalents	19	21
Other (2)	16	16
	100%	100%

(1) Excludes assets under management for asset managers in which the Company held a noncontrolling interest as of December 31, 2010 and 2009.

(2) Includes private equity and other alternative investments.

Other Noninterest Income

Cash management and deposit transaction fees for 2010 were $47.6 million, down 8 percent from 2009, compared with a 7 percent increase in 2009 from 2008. The decreases were due to higher deposit balances, the low interest rate environment, and lower gross charges.

International services income for 2010 was $31.3 million compared to $31.0 million in 2009 and $32.4 million in 2008. International services income includes foreign exchange fees, fees on commercial letters of credit and standby letters of credit, foreign collection fees and gains and losses associated with fluctuations in foreign currency exchange rates. There was a slight improvement in income from 2009 to 2010 compared to the decrease in 2009 from 2008, which reflected the impact of the slowdown in the global economy on the demand for services during that period of time.

Income and expense from FDIC loss-sharing agreements is reflected in FDIC loss sharing income, net. This balance includes discount accretion and gain on the FDIC indemnification asset and expense from the reduction of the FDIC indemnification asset upon the removal of loans, OREO and unfunded

Table of Contents

loan commitments. Loans are removed when they have been fully paid off, fully charged off, or transferred to OREO. Net FDIC loss sharing income also includes income recognized on the portion of expenses related to covered assets that are reimbursable by the FDIC, net of income due to the FDIC, as well as the income statement effects of other loss-share transactions. The following table provides the components of FDIC loss sharing income, net for the years ended December 31, 2010 and 2009:

	For the year ended December 31,	
(in thousands)	**2010**	**2009**
Indemnification asset accretion	$ 9,185	$ 723
Gain on indemnification asset	52,061	
Removal of indemnification asset	(29,543)	
Net FDIC reimbursement for OREO and loan expenses	41,210	
Net reimbursement to FDIC for gains and losses on OREO sales	(3,549)	
Increase in FDIC clawback liability	(3,264)	
Other	(2,765)	
Total FDIC loss sharing income, net	$ 63,335	$ 723

Net FDIC loss sharing income was $63.3 million for 2010, compared with $0.7 million for 2009. The increase in FDIC loss sharing income from 2009 to 2010 was a result of a partial year of activity relating to the ICB acquisition in December 2009 and the FDIC-assisted acquisitions of FPB and SWB in May 2010. In 2010, the Company recognized $52.1 million of income on the FDIC indemnification asset as a result of revisions of the Company's projected cash flows forecast on its covered loans.

Net gain on disposal of assets was $2.8 million in 2010, compared to $1.3 million in 2009. Net loss on sale of other assets was $0.4 million in 2008. The net gain in 2010 is primarily attributable to gains recognized on the sale of OREO, partially offset by a $5.0 million charge for the write-off of a Community Reinvestment Act-related receivable.

Other income was $29.4 million in 2010 compared to $23.4 million in 2009 and $29.0 million in 2008. Other income for 2010 includes $21.2 million of net gains recorded on the transfer of covered loans to OREO, as well as additional income from the amortization of the fair value on unfunded loan commitments acquired in the FDIC-assisted acquisitions. The increase in other income from 2009 was also the result of improved market valuations on trading securities and lower impairment losses on private equity investments. The increases in other income was partially offset by total charges of $19.1 million recognized on the early extinguishment of debt and a $5.9 million loss related to one of the Company's affiliated investment advisors.

The Company recognized $27.3 million of gain on the acquisitions of FPB and SWB in 2010, compared to a $38.2 million gain on the acquisition of ICB in 2009.

The Company recognized $0.4 million of net gains on the sale of securities available-for-sale in 2010, compared to $14.3 million of net gains and $1.5 million of net losses on the sale of securities available-for-sale in 2009 and 2008, respectively.

Impairment losses on securities available-for-sale recognized in earnings were $2.0 million in 2010, a decrease from $16.4 million in 2009 and $49.3 million in 2008. See "Balance Sheet Analysis Securities" for further discussion of impairment loss on securities available-for-sale.

Noninterest Expense

Noninterest expense was $751.3 million in 2010, an increase of 29 percent, from $581.1 million in 2009. Noninterest expense decreased 1 percent, in 2009 over 2008. The increase from 2009 to 2010 was

Table of Contents

due largely to the acquisitions of ICB in December 2009 and FPB and SWB in May 2010. It also reflected higher compensation costs, legal and professional fees, and OREO expenses. The decrease from 2008 to 2009 was due primarily to lower personnel costs, reduced incentive compensation and a salary freeze, offset by higher FDIC costs, legal fees and OREO expense.

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

Analysis of Changes in Noninterest Expense

(in millions) (1)	2010	Increase (Decrease) Amount	%	2009	Increase (Decrease) Amount	%	2008
Salaries and employee benefits	$ 409,823	$ 89,547	28.0	$ 320,276	$ (34,237)	(9.7)	$ 354,513
All Other:							
Net occupancy of premises	55,567	5,144	10.2	50,423	909	1.8	49,514
Legal and professional fees	47,641	10,631	28.7	37,010	1,666	4.7	35,344
Information services	30,824	2,989	10.7	27,835	866	3.2	26,969
Depreciation and amortization	25,845	(374)	(1.4)	26,219	4,018	18.1	22,201
Marketing and advertising	23,112	2,986	14.8	20,126	(2,771)	(12.1)	22,897
Office services and equipment	16,381	1,386	9.2	14,995	(553)	(3.6)	15,548
Amortization of intangibles	9,036	1,679	22.8	7,357	(10,381)	(58.5)	17,738
Other real estate owned	63,111	54,186	607.1	8,925	8,356	1,468.5	569
FDIC assessments	29,055	1,002	3.6	28,053	21,811	349.4	6,242
Other operating	40,935	1,067	2.7	39,868	3,640	10.0	36,228
Total all other	341,507	80,696	30.9	260,811	27,561	11.8	233,250
Total noninterest expense	$ 751,330	$ 170,243	29.3	$ 581,087	$ (6,676)	(1.1)	$ 587,763

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

Salaries and employee benefits expense for 2010 increased to $409.8 million, or 28 percent, from $320.3 million in 2009, primarily due to increased personnel costs from the three FDIC-assisted acquisitions as well as increases in bonuses and incentive compensation. Salaries and employee benefits expense decreased 10 percent in 2009 from 2008 largely due to a reduction in incentive compensation and personnel costs, along with a salary freeze. Full-time equivalent staff increased to 3,178 at December 31, 2010 from 3,017 at December 31, 2009 and 2,989 at December 31, 2008, due primarily to acquisitions.

Salaries and employee benefits expense for 2010 includes $16.7 million related to share-based compensation plans compared with $14.4 million for 2009 and $14.7 million for 2008. At December 31, 2010, there was $13.0 million of unrecognized compensation cost related to unvested stock options granted under the Company's plans. That cost is expected to be recognized over a weighted average period of 2.3 years. At December 31, 2010, there was $19.0 million of unrecognized compensation cost related to restricted shares granted under the Company's plans. That cost is expected to be recognized over a weighted average period of 3.3 years.

The remaining noninterest expense categories increased $80.7 million or 31 percent, between 2009 and 2010. The increase is primarily attributable to increased expenses from the Company's three FDIC-assisted acquisitions. The Company recognized a $10.6 million, or

28 percent, increase in legal and professional fees, and a $54.2 million or 607 percent, increase in OREO expense. The majority of the increase in OREO expense was attributable to FDIC-covered OREO. Of the qualified covered asset-related expenses, 80 percent is reimbursed by the FDIC and reflected in FDIC loss sharing income, net in the noninterest income section of the consolidated statements of income.

Table of Contents

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

(in thousands)	For the year ended December 31, 2010	2009	2008
Non-covered OREO expense			
Valuation write-downs	$ 18,857	$ 4,385	$
Holding costs and foreclosure expense	$ 2,441	4,428	569
Total non-covered OREO expense	$ 21,298	$ 8,813	$ 569
Covered OREO expense			
Valuation write-downs	$ 24,809	$	$
Holding costs and foreclosure expense	$ 17,004	112	
Total covered OREO expense	$ 41,813	$ 112	$
Total OREO expense	$ 63,111	$ 8,925	$ 569

The remaining noninterest expense categories for 2009 increased $27.6 million or 12 percent, from 2008. The increase was primarily attributable to higher FDIC costs, which grew $21.8 million from 2008, due to higher assessment rates and higher deposit levels. Total FDIC costs for 2009 also included the Company's $8.0 million share of a special assessment levied against all FDIC-insured deposits. Other real estate owned expenses were $8.9 million in 2009 compared to $0.6 million in prior year due to increased OREO activity. Other operating expenses grew 10 percent from prior year.

Net income attributable to noncontrolling interest (formerly minority interest expense), representing noncontrolling ownership interests in the net income of affiliates, increased to $3.9 million in 2010, from $0.7 million in 2009 and $5.4 million in 2008. The increase in 2010 compared to 2009 was primarily due to a general return to profitability for the Company's majority-owned wealth management affiliates. The decrease in 2009 compared to 2008 was primarily due to declining income of the wealth-management affiliates.

Segment Operations

The Company's reportable segments are Commercial and Private Banking, Wealth Management and Other. For a more complete description of the segments, including summary financial information, see Note 22 of the Notes to Consolidated Financial Statements.

Commercial and Private Banking

Comparison of 2010 to 2009

Net income for the Commercial and Private Banking segment increased to $92.0 million for 2010 from $38.1 million for 2009. The increase in net income compared with the prior year was due to growth in net interest income, a lower provision for credit losses and higher noninterest income. Increases in revenue were offset in part by increased expenses associated with the FDIC-assisted acquisitions and increased OREO expense. Net interest income for 2010 was $700.6 million, an increase of 12 percent from $623.0 million for 2009. The increase in net interest income was primarily due to covered loans acquired in the three FDIC-assisted acquisitions that occurred in December 2009 and May 2010. In addition, net interest income for the current year includes $20.6 million of interest income from the accelerated accretable yield recognition on FDIC-covered loans that were paid off or fully charged off during the year. Average loans, excluding covered loans, decreased to $11.53 billion, or by 6 percent, for 2010 compared with the year earlier. The decrease in average loans for the year reflects lower loan demand due to challenging business and economic conditions, along with a reduction in the amount of problem loans. Average covered loans were $1.94 billion for 2010 and $66.5 million for 2009. Average deposits increased by 31 percent to $17.29 billion for 2010 from $13.22 billion for 2009. The growth in average deposits compared with the prior year was driven by the FDIC-assisted acquisitions, new clients and growth in liquidity of existing clients.

Provision for credit losses on loans and leases, excluding covered loans, decreased to $103.0 million for 2010 from $285.0 million for 2009. Provision for losses on covered loans was $76.2 million for 2010. There was no provision recorded on covered loans in 2009. Refer to page 58 for further discussion of the provision.

Noninterest income increased to $277.2 million for 2010 from $203.9 million for 2009, a 36 percent increase. The increase is primarily due to higher FDIC loss sharing income related to the acquired banks which increased to $63.3 million in 2010 from $0.7 million in 2009. Noninterest expense, including depreciation and amortization, increased to $640.0 million, or by 34 percent, for 2010 from $476.2 million for the year earlier. Noninterest expense for the current year increased as a result of the three bank acquisitions and higher OREO expense, a large portion of which is reimbursable by the FDIC. FDIC reimbursement for OREO expense is recognized in noninterest income.

Comparison of 2009 to 2008

Net income for the Commercial and Private Banking segment decreased by $87.6 million, or 70 percent, to $38.1 million for 2009 from $125.8 million for 2008. The decrease in net income for 2009 compared with the prior year was the result of a higher provision for credit losses and lower noninterest income. Net interest income decreased to $623.0 million for 2009 from $628.5 million for 2008. The favorable impact of loan growth on net interest income in 2009 was offset by a lower net interest margin which was impacted by historically low interest rates. Average loan balances, excluding covered loans, increased to $12.26 billion for 2009 from $12.01 billion for 2008. Average deposits grew by 22 percent to $13.22 billion for 2009 from $10.87 billion for the previous year. Noninterest income increased 9 percent to $203.9 million for 2009 from $187.6 million for 2008. Decreases in trust and investment fees and brokerage and mutual fund fees from the prior year were offset by a $38.2 million gain on a bank acquisition. Noninterest expense, including depreciation and amortization, was $476.2 million for 2009 and $472.3 million for 2008. Reductions in personnel costs were offset by increases in FDIC insurance premiums and OREO expense in 2009.

Wealth Management

Comparison of 2010 to 2009

The Wealth Management segment had net income attributable to City National Corporation ("CNC") of $0.9 million for 2010, a decrease from $2.8 million for 2009. Increases in fee income for the current year resulting from improving conditions in the financial markets were partially offset by increases in noninterest expense. Refer to *Noninterest Income Wealth Management* for a discussion of the factors impacting fee income for the Wealth Management segment. Noninterest expense, including depreciation and amortization, increased by 7 percent to $154.1 million for 2010 from $144.5 million for the year earlier. Noninterest expense for 2010 includes a $5.9 million impairment charge related to an affiliated investment advisor.

Comparison of 2009 to 2008

The Wealth Management segment had net income attributable to CNC of $2.8 million for 2009, a decrease of $26.5 million, or 90 percent, from $29.4 million for 2008. The decrease in net income compared with the previous year is a result of fee waivers on the money market funds due to the low interest rate environment, low equity market valuations, lower trading activity and narrower spreads at the broker dealer. Additionally, noninterest income for 2009 includes a $2.1 million one-time charge related to the deconsolidation of an asset management affiliate. Noninterest expense, including depreciation and amortization, declined by 10 percent to $144.5 million for 2009 from $161.3 million for 2008. The decrease in noninterest expense compared with the year earlier is due to lower compensation costs that reflect lower incentive levels and staff count reductions, and noninterest expense for 2008 includes a $9.4 million impairment write down of a contract intangible. Decreases in noninterest expense for 2009 were partially offset by expenses related to Lee Munder Capital Group, an institutional asset management firm that was acquired in July 2009.

Other

Comparison of 2010 to 2009

Net income attributable to CNC for the Other segment increased to $38.3 million for 2010, from $10.3 million for 2009. Net interest income increased to $28.0 million for 2010 from $1.3 million of net interest expense for 2009. Net interest income for the current year was favorably impacted by the change in the earning-asset mix which is largely due to the acquired loan portfolio. Loans receive a higher funding charge from the Asset Liability Funding Center ("Funding Center") than other types of earning assets which results in higher revenue in the Funding Center. The Funding Center has also experienced a decrease in net funding costs due to the low interest rate environment. Noninterest income for the current year included a $12.3 million charge for the early retirement of debt and a $6.8 million charge for the redemption of trust preferred securities. Noninterest income for 2010 also reflects an increase in the elimination of intersegment revenues (recorded in Other segment) compared with 2009 due to higher trust and investment fee income. Impairment losses on securities available-for-sale decreased to $2.0 million in 2010 from $16.4 million a year earlier.

Comparison of 2009 to 2008

Net income attributable to CNC for the Other segment was $10.4 million for 2009 compared with a net loss of $50.2 million for 2008. Net interest expense was $1.3 million for 2009 compared with $31.9 million for the prior year. Net interest expense was favorably impacted by lower net funding costs in the Asset Liability Funding Center due to the decline in interest rates in 2009 and growth in core deposits. Noninterest income for 2009 reflects a significant reduction in the elimination of intersegment revenues compared with 2008 resulting from declines in trust, investment and brokerage fees. .Additionally, net securities losses, which include securities sales net of impairment charges, decreased to $2.2 million for 2009 from $50.8 million for 2008.

Income Taxes

The Company recognized income tax expense of $26.1 million in 2010, compared to a tax benefit of $1.9 million in 2009 and tax expense of $41.8 million in 2008. The effective tax rate for 2010 was equal to 16.2 percent of pretax income, compared to a tax benefit of 3.8 percent of pretax income for 2009 and effective tax rate of 27.5 percent of pretax income for 2008. The tax benefit in 2009 was attributable to lower income for the year and permanent tax differences that do not vary directly with the level of income and therefore have a larger relative impact on the effective tax rate when earnings are lower. The effective tax rates differ from the applicable statutory federal and state tax rates due to various factors, including tax benefits from investments in affordable housing partnerships, tax-exempt income on municipal bonds and bank-owned life insurance and other adjustments.

The Company had net deferred tax assets of $105.4 million and $164.0 million as of December 31, 2010 and 2009, respectively.

In May 2010, the California Franchise Tax Board closed its audits for the years 1998 through 2004 and settled litigation related to various refund claims and other pending matters under review. Under the terms of the settlement, the Company received $29 million in tax credits, which added

Table of Contents

approximately $19 million to the Company's net income in 2010. During the year, the Company also recorded an adjustment to correct certain deferred tax accounts related to revisions of book and tax basis differences established in previous years related to its wealth management affiliates, low income housing investments and fixed assets. The net effect of the adjustment was a reduction of the deferred tax asset and a corresponding tax expense of $4.3 million.

Excluding the $19 million tax credit and $4.3 million expense relating to revisions to correct certain deferred tax accounts, the effective tax rate was 25.3 percent for 2010. Management believes that this non-GAAP financial measure enhances the comparability of the financial results with prior periods as well as to highlight the effects of the above items in 2010. The Company believes that investors may find it useful to see these non-GAAP financial measures to analyze the Company's effective tax rate without the impact of these items.

The Company and its subsidiaries file a consolidated federal income tax return and also file income tax returns in various state jurisdictions. The Internal Revenue Service ("IRS") completed its audits of the Company for the tax year 2009 resulting in no material financial statement impact. The Company is currently being audited by the IRS for 2010. The Company is also currently under audit with the California Franchise Tax Board for the tax years 2005 to 2007. The potential financial statement impact, if any, resulting from the completion of these audits is expected to be minimal.

From time to time, there may be differences in opinions with respect to the tax treatment of certain transactions. If a tax position which was previously recognized on the consolidated financial statements is no longer "more likely than not" to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. The Company did not have any tax positions for which previously recognized benefits were derecognized during the year ended December 31, 2010.

See Note 17 of the Notes to Consolidated Financial Statements for further discussion of income taxes.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Risk Management Framework

Risk management oversight and governance is provided through the Board of Directors' Audit and Risk Committee and facilitated through multiple management committees. Consisting of four outside directors, the Audit and Risk Committee monitors the Company's overall aggregate risk profile as established by the Board of Directors including all credit, market, liquidity, operational and regulatory risk management activities. The Committee reviews and approves the activities of key management governance committees that regularly evaluate risks and internal controls for the Company. These management committees include the Asset/Liability Management Committee, the Credit Policy

Table of Contents

Committee, the Senior Operations Risk Committee and the Risk Council, among others. The Risk Council reviews the development, implementation and maintenance of risk management processes from a Company-wide perspective, and assesses the adequacy and effectiveness of the Company's risk management policies and the Enterprise Risk Management program. Other management committees, with representatives from the Company's various lines of business and affiliates, address and monitor specific risk types, including the Compliance Committee, the Wire Risk Committee, and the Information Technology Steering Committee, and report periodically to the key management committees. The Senior Risk Management Officer and the Internal Audit and Credit Risk Review units provide the Audit and Risk Committee with independent assessments of the Company's internal control and related systems and processes.

Liquidity Risk

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

In recent years, the Company's core deposit base has provided the majority of the Company's funding requirements. This relatively stable and low-cost source of funds, along with shareholders' equity, provided 88 percent and 86 percent of funding for average total assets in 2010 and 2009, respectively. Strong core deposits are indicative of the strength of the Company's franchise in its chosen markets and reflect the confidence that clients have in the Company. The Company places a very high priority in maintaining this confidence through conservative credit and capital management practices and by maintaining significant on-balance sheet liquidity reserves.

The following table provides information on other short-term funding sources:

	2010			2009			2008		
(in thousands)	**Balances at Year-end**	**Average Balance**	**Average Rate**	**Balances at Year-end**	**Average Balance**	**Average Rate**	**Balances at Year-end**	**Average Balance**	**Average Rate**
Federal funds purchased	$	$ 29,131	0.10%	$ 426,779	$ 214,672	0.16%	$ 708,157	$ 896,676	2.18%
Securities sold under repurchase agreements		134,178	3.92	200,000	200,000	3.98	200,000	202,055	3.97
Other short-term borrowings	620	711	0.08	690	52,298	0.63	124,500	667,457	2.69
Total	$ 620	$ 164,020	3.23%	$ 627,469	$ 466,970	1.85%	$ 1,032,657	$ 1,766,188	2.58%
Maximum month-end balance									
Federal funds purchased	$ 99,394			$ 689,202			$ 1,361,678		
Securities sold under repurchase agreements	200,000			200,000			206,277		
Other short-term borrowings	750			121,859			955,000		

Reliance on short-term wholesale or market sources of funds declined steadily during 2010, ending the year near zero. These funding sources, on average, totaled $0.16 billion and $0.47 billion in 2010 and 2009, respectively. The Company's liquidity position was further strengthened through increased longer-term borrowings which rose to $0.85 billion on average in 2010 from $0.54 billion in 2009. A portion of this increase in longer-term borrowings was used to redeem TARP preferred stock. Market sources of funds comprise a relatively modest portion of total Bank funding and are managed within concentration and maturity guidelines reviewed by management and implemented by the Company's treasury department.

Liquidity is further provided by assets such as federal funds sold, balances held at the Federal Reserve Bank, and trading account securities, which may be immediately converted to cash at minimal cost. The aggregate of these assets averaged $0.89 billion during 2010 compared with $0.52 billion in 2009. In addition, the Company has committed and unutilized borrowing capacity of $3.23 billion as of December 31, 2010, secured by collateral, from the Federal Home Loan Bank of San Francisco, of which the Bank is a member. The Company's investment portfolio also provides a substantial secondary liquidity reserve. The portfolio of securities available-for-sale averaged $4.62 billion and $3.23 billion in 2010 and 2009, respectively. The unpledged portion of securities available-for-sale at December 31, 2010 totaled $4.67 billion. These securities could be used as collateral for borrowing or a portion could be sold. Maturing loans provide additional liquidity, and $2.84 billion, or 21 percent, of the Company's loans are scheduled to mature in 2011.

Interest Rate Risk

Interest rate risk is inherent in financial services businesses. Interest rate risk results from assets and liabilities maturing or repricing at different times; assets and liabilities repricing at the same time but in different amounts or from short-term and long-term interest rates changing by different amounts (changes in the yield curve).

The Company has established two primary measurement processes to quantify and manage exposure to interest rate risk: net interest income simulation modeling and economic value of equity analysis. Net interest income simulations are used to identify the direction and severity of interest rate risk exposure across a 12 and 24 month forecast horizon. Economic value of equity calculations are used to estimate the price sensitivity of shareholders' equity to changes in interest rates. The Company also uses gap analysis to provide insight into structural mismatches of asset and liability cash flows.

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

The Company is naturally asset-sensitive due to its large portfolio of rate-sensitive commercial loans that are funded in part by noninterest bearing and rate-stable core deposits. As a result, if there are no significant changes in the mix of assets and liabilities, the net interest margin increases when interest rates increase and decreases when interest rates decrease. The Company uses on and off-balance sheet hedging vehicles to manage risk. The Company uses a simulation model to estimate the impact of changes in interest rates on net interest income. Interest rate scenarios include stable rates and a 400 basis point parallel shift in the yield curve occurring gradually over a two-year period. The model is used to project net interest income assuming no changes in loans or deposit mix as it stood at December 31, 2010 as well as a dynamic simulation that includes changes to balance sheet mix in response to changes in interest rates. In the dynamic simulation, loans and deposit balances are modeled based on experience in previous vigorous economic recovery cycles. Loans, excluding covered

Table of Contents

loans, increase 10 percent per year compared to the base case. Similarly, deposits decline 5 percent per year. Loan yields and deposit rates change over the simulation horizon based on current spreads and adjustment factors that are statistically derived using historical rate and balance sheet data.

As of December 31, 2010, the Federal funds target rate was at a range of zero percent to 0.25 percent. Further declines in interest rates are not expected to significantly impact asset yields or liability costs, nor have a meaningful effect on net interest margin. At December 31, 2010, a gradual 400 basis point parallel increase in the yield curve over the next 24 months assuming a static balance sheet would result in an increase in projected net interest income of approximately 3.0 percent in year one and a 13.2 percent increase in year two. This compares to an increase in projected net interest income of 1.7 percent in year one and a 7.6 percent increase in year two at December 31, 2009. Interest rate sensitivity has increased due to changes in the mix of the balance sheet, primarily significant growth in non-rate sensitive deposits, TARP repayment and other balance sheet changes related to the recent acquisitions. The dynamic simulation incorporates balance sheet changes resulting from a gradual 400 basis point increase in rates. In combination, these rate and balance sheet effects result in an increase in projected net interest income of approximately 4.4 percent in year one and 16.7 percent increase in year two. The Company's interest rate risk exposure remains within Board limits and ALCO guidelines.

The company's loan portfolio includes floating rate loans which are tied to short-term market index rates, adjustable rate loans for which the initial rate is fixed for a period from one year to as much as ten years, and fixed-rate loans whose interest rate does not change through the life of the transaction. The following table shows the composition of the Company's loan portfolio by major loan category as of December 31, 2010. Each loan category is further divided into Floating, Adjustable and Fixed rate components. Floating rate loans are generally tied to either the Prime rate or to a LIBOR based index.

	Floating Rate					
(in millions)	**Prime**	**LIBOR**	**Total**	**Adjustable**	**Fixed**	**Total Loans**
Commercial	$ 1,908	$ 1,462	$ 3,370	$ 38	$ 1,106	$ 4,514
Commercial real estate mortgages	225	438	663	83	1,212	1,958
Residential mortgages	40	6	46	1,869	1,637	3,552
Real estate construction	289	150	439		29	468
Equity lines of credit	734		734			734
Installment	94		94		66	160
Covered loans	140	49	189	1,334	335	1,858
Total loans and leases	$ 3,430	$ 2,105	$ 5,535	$ 3,324	$ 4,385	$ 13,244
Percentage of portfolio	26%	16%	42%	25%	33%	100%

Certain floating rate loans have a "floor" rate which is absolute and below which the loan rate will not fall even though market rates may be unusually low. At December 31, 2010, $5.54 billion (42 percent) of the Company's loan portfolio was floating rate, of which $2.98 billion (54 percent) was not impacted by rate floors. This is because either the loan contract does not specify a minimum or floor rate, or because the contractual loan rate is above the minimum rate specified in the loan contract. Of the loans which were at their contractual minimum rate, $1.48 billion (27 percent) were within 0.75 percent of the contractual loan rate absent the effects of the floor. Thus, the rate on these loans will be relatively responsive to increases in the underlying Prime or LIBOR index, and all will adjust upwards should the underlying index increase by more than 0.75 percent. Only $146 million of floating rate loans have floors that are more than 2.00 percent above the contractual rate formula. Thus, the yield on the Company's floating rate loan portfolio is expected to be highly responsive to

Table of Contents

changes in market rates. The following table shows the balance of loans in the Floating Rate portfolio stratified by spread between the current loan rate and the floor rate as of December 31, 2010:

(in millions)	Loans with No Floor and Current Rate Greater than Floor	Interest Rate Increase Needed for Loans Currently at Floor Rate to Become Floating < 0.75%	0.76% - 2.00%	> 2.00%	Total
Prime	$ 1,429	$ 1,180	$ 743	$ 78	$ 3,430
LIBOR	1,549	301	187	68	2,105
Total floating rate loans	$ 2,978	$ 1,481	$ 930	$ 146	$ 5,535
% of total floating rate loans	54%	27%	17%	2%	100%

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

The model indicates that the EVE is somewhat vulnerable to a sudden and substantial increase in interest rates. As of December 31, 2010, a 200-basis-point increase in interest rates results in a 4.0 percent decline in EVE. This compares to a 5.0 percent decline a year-earlier. Measurement of a 200 basis point decrease in rates as of December 31, 2010 and December 31, 2009 are not meaningful due to the current low rate environment.

Gap Analysis: The gap analysis is based on the contractual cash flows of all asset and liability balances on the Company's books. Contractual lives of assets and liabilities may differ substantially from their expected lives. For example, checking accounts are subject to immediate withdrawal. However, experience suggests that these accounts will have longer average lives. Also, certain loans, such as first mortgages, are subject to prepayment. The gap analysis may be used to identify periods in which there is a substantial mismatch between asset and liability cash flows. These mismatches can be moderated by investments or interest-rate derivatives. Gap analysis is used to support both interest rate risk and liquidity risk management.

Interest-Rate Risk Management

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

Interest-rate swap agreements involve the exchange of fixed and variable-rate interest payments based upon a notional principal amount and maturity date. The Company's interest rate risk management instruments had $5.3 million of credit risk exposure at December 31, 2010 and $8.0 million as of December 31, 2009. The credit exposure represents the cost to replace, on a present value basis and at current market rates, all contracts outstanding by trading counterparty having an aggregate positive market value, net of margin collateral received. The Company's swap agreements require the deposit of cash or marketable debt securities as collateral for this risk if it exceeds certain market value thresholds. These requirements apply individually to the Corporation and to the Bank. As of December 31, 2010, collateral valued at $12.8 million, comprised of securities valued at $9.7 million and cash of $3.1 million, had been received from swap counterparties. At December 31, 2009, collateral valued at $16.6 million had been received from swap counterparties. Additionally, the Company delivered collateral valued at $8.5 million on swap agreements at December 31, 2010.

As of December 31, 2010, the Company had $365.9 million notional amount of interest-rate swap hedge transactions, all of which 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.

The hedged subordinated debt and other long-term debt consists of City National Bank 10-year subordinated notes with a face value of $147.8 million due on September 1, 2011 and City National Corporation senior notes with a face value of $208.2 million due on February 15, 2013.

Amounts to be paid or received on the cash flow hedge interest-rate swaps are reclassified into earnings upon receipt of interest payments on the underlying hedged loans. The amount of gains on cash flow hedges reclassified from AOCI to interest income was $8.5 million for 2010.

The following table is a summary of fair value and cash flow hedges:

	December 31, 2010			December 31, 2009		
(in millions)	Notional Amount	Fair Value	Duration (Years)	Notional Amount	Fair Value	Duration (Years)
Fair Value Hedge						
Interest Rate Swap						
Certificates of deposit	$ 10.0	$ 0.3	0.4	$ 20.0	$ 0.9	0.9
Long-term and subordinated debt	355.9	19.8	1.3	358.2	27.7	2.3
Total fair value hedge swaps	365.9	20.1	1.3	378.2	28.6	2.2
Cash Flow Hedge						
Interest Rate Swap						
US Dollar LIBOR based loans				350.0	6.6	1.6
Prime based loans				100.0	1.9	0.6
Total cash flow hedge swaps				450.0	8.5	1.4
Fair Value and Cash Flow Hedge						
Interest Rate Swaps	$ 365.9	$ 20.1(1)	1.3	$ 828.2	$ 37.1(1)	1.8

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

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

Table of Contents

The table below shows the notional amounts of the Company's interest-rate swap maturities and average rates at December 31, 2010 and December 31, 2009. Average interest rates on variable-rate instruments are based upon the Company's interest rate forecast.

Interest Rate Swap Maturities and Average Rates

(in millions)	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value
December 31, 2010								
Notional amount	$ 157.7	$	$ 208.2	$	$	$	$ 365.9	$ 20.1
Weighted average rate received	5.57%		4.39%				4.90%	
Weighted average rate paid	0.29%		0.29%				0.29%	

	2010	2011	2012	2013	2014	Thereafter	Total	Fair Value
December 31, 2009								
Notional amount	$ 185.0	$ 335.0	$	$ 308.2	$	$	$ 828.2	$ 37.1
Weighted average rate received	5.41%	4.25%		3.59%			4.26%	
Weighted average rate paid	1.46%	0.47%		0.26%			0.61%	

Other Derivatives

The Company also offers various derivative products to clients and enters into derivative transactions in due course. These derivative contracts are offset by paired trades with unrelated third parties. These transactions are not linked to specific Company assets or liabilities in the consolidated balance sheets or to forecasted transactions in a hedge relationship and, therefore, do not qualify for hedge accounting. The contracts are marked-to-market each reporting period with changes in fair value recorded as part of Other noninterest income in the consolidated statements of income. Fair values are determined from verifiable third-party sources that have considerable experience with the derivative markets. 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. At December 31, 2010 and 2009, the Company had entered into derivative contracts with clients (and offsetting derivative contracts with counterparties) having a notional balance of $1.13 billion.

Market Risk-Foreign Currency Exchange

The Company enters into foreign-exchange contracts with its clients and counterparty banks primarily for the purpose of offsetting or hedging clients' transaction and economic exposures arising out of commercial transactions. The Company's policies also permit taking proprietary currency positions within certain approved limits. The Company actively manages its foreign exchange exposures within prescribed risk limits and controls. At December 31, 2010, the Company's outstanding foreign exchange contracts, both proprietary and for customer accounts, totaled $78.2 million. The mark-to-market on foreign exchange contracts included in other assets and other liabilities totaled $1.3 million and $1.0 million, respectively.

BALANCE SHEET ANALYSIS

Total assets were $21.35 billion at December 31, 2010, compared to $21.08 billion at December 31, 2009. Average assets were $21.16 billion for 2010, an increase of 19 percent from $17.71 billion for 2009.

Total average interest-earning assets were $19.27 billion in 2010, compared to $16.32 billion in 2009.

Table of Contents

Securities

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

(in thousands)	December 31, 2010 Amortized Cost	December 31, 2010 Fair Value	December 31, 2009 Amortized Cost	December 31, 2009 Fair Value
U.S. Treasury	$ 14,070	$ 14,113	$ 73,597	$ 73,597
Federal agency Debt	1,142,520	1,142,328	659,716	656,721
Federal agency MBS	540,768	551,346	552,691	555,157
CMOs Federal agency	3,442,238	3,497,147	2,294,676	2,306,111
CMOs Non-agency	126,819	118,295	272,262	241,329
State and municipal	334,596	343,380	368,454	378,639
Other debt securities	50,564	43,630	82,163	76,506
Total debt securities	5,651,575	5,710,239	4,303,559	4,288,060
Equity securities and mutual funds	6,545	10,436	15,861	18,698
Total securities	$ 5,658,120	$ 5,720,675	$ 4,319,420	$ 4,306,758

At December 31, 2010, the fair value of securities available-for-sale totaled $5.72 billion, an increase of $1.41 billion, or 33 percent from December 31, 2009. The increase in securities was primarily a result of strong deposit growth and improving market values. The increase was partially offset by scheduled maturities of $1.57 billion, paydowns of $849.2 million and proceeds from securities sales of $574.5 million. The average duration of total securities available-for-sale at December 31, 2010 and 2009 was 2.8 and 2.9 years, respectively.

At December 31, 2010, the securities available-for-sale portfolio had a net unrealized gain of $62.6 million, comprised of $100.4 million of unrealized gains and $37.8 million of unrealized losses. At December 31, 2009, the securities available-for-sale portfolio had a net unrealized loss of $12.7 million, comprised of $46.0 million of unrealized gains and $58.6 million of unrealized losses. The unrealized gain or loss on securities available-for-sale is reported on an after-tax basis as a component of other comprehensive income.

Of the total securities available-for-sale portfolio of $5.72 billion at December 31, 2010, approximately 91 percent of the portfolio is invested in securities issued by the U.S. Treasury or U.S. government agencies. Two percent of the portfolio is invested in non-agency collateralized mortgage obligation securities ("Non-agency CMO") and 6 percent is invested in state and municipal securities.

The municipal bond market experienced significant volatility in late 2010, mainly due to technical factors and certain highly publicized events. A heavy calendar of new issues and elimination of federal tax incentives combined with growing concerns about the financial health of U.S. municipalities put pressure on municipal bond prices. At December 31, 2010, the Company had $343.4 million of state and municipal securities, of which all rated bonds are investment grade, and 94 percent are rated at least A2/A by Moody's Investor Service or Standard and Poor's. The Company's holdings in state and municipal securities are well diversified by issuer and geographic area, which lessens the Company's exposure to any single adverse event. There were no other-than-temporary impairment losses recognized in this portfolio for 2010, 2009 and 2008. The Company continues to monitor the municipal bond market and its state and municipal securities portfolio.

The Company recognized $0.4 million of net realized gains on the sale of securities available-for-sale in 2010, which related primarily to the sale of CMOs, mortgage-backed securities and

Table of Contents

mutual funds. The following table provides the gross realized gains and losses on the sales of securities available-for-sale for 2010, 2009 and 2008:

	For the year ended December 31,		
(in thousands)	2010	2009	2008
Gross realized gains	$ 6,915	$ 22,696	$ 2,642
Gross realized losses	(6,522)	(8,410)	(4,153)
Net realized gains (losses)	$ 393	$ 14,286	$ (1,511)

Interest income on securities available-for-sale is comprised of: (i) taxable interest income of $123.7 million, $108.2 million and $86.1 million for the years ended December 31, 2010, 2009, and 2008, respectively, (ii) nontaxable interest income of $12.2 million, $14.4 million and $15.1 million for the years ended December 31, 2010, 2009, and 2008, respectively, and (iii) dividend income of $0.8 million, $1.2 million and $3.2 million for the years ended December 31, 2010, 2009, and 2008, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at December 31, 2010, except for mortgage-backed securities which are allocated according to their average expected maturities. 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	$ 4,019	$ 10,094	$	$	$ 14,113
Federal agency Debt	495,689	551,001	95,638		1,142,328
Federal agency MBS	49	292,374	199,956	58,967	551,346
CMOs Federal agency	501,626	2,506,534	443,371	45,616	3,497,147
CMOs Non-agency	32,361	49,997	35,937		118,295
State and municipal	36,399	155,974	96,103	54,904	343,380
Other	6,576	9,979	27,075		43,630
Total debt securities	$ 1,076,719	$ 3,575,953	$ 898,080	$ 159,487	$ 5,710,239
Amortized cost	$ 1,069,907	$ 3,509,682	$ 911,567	$ 160,419	$ 5,651,575

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 does not intend to sell the security and it is not 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

Table of Contents

which then becomes the new cost basis. The new cost basis is not adjusted for subsequent recoveries in fair value.

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

Securities Deemed to be Other-Than-Temporarily Impaired

Through the impairment assessment process, the Company determined that certain securities were other-than-temporarily impaired at December 31, 2010. The Company recorded impairment losses in earnings on securities available-for-sale of $2.0 million for the year ended December 31, 2010. The $7.5 million non-credit portion of impairment recognized at December 31, 2010 was recorded in AOCI. The Company recorded impairment losses in earnings on securities available-for-sale of $16.4 million and $49.3 million in 2009 and 2008, 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 year ended December 31,** **2010**	**2009**	**2008**
Non-agency CMOs	$ 1,738	$ 4,409	$
Collateralized debt obligation income notes		9,282	18,088
Perpetual preferred stock	293	1,124	21,884
Equity securities and mutual funds		1,630	9,308
Total	$ 2,031	$ 16,445	$ 49,280

The following table provides a rollforward of credit-related other-than-temporary impairment recognized in earnings for the years ended December 31, 2010 and 2009. 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.

(in thousands)	**For the year ended December 31,** **2010**	**2009**
Balance, beginning of period	$ 17,707	$ 8,083
Subsequent credit-related impairment	1,712	5,215
Initial credit-related impairment	26	4,409
Balance, end of period	$ 19,445	$ 17,707

Non-agency CMOs

During 2010 and 2009, 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 securities 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

Table of Contents

coupon was used through the reset date for each security. The prevailing LIBOR/Treasury 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 $1.7 million and $4.4 million in 2010 and 2009, respectively. The remaining other-than-temporary impairment for these securities at December 31, 2010 and 2009 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.

Collateralized Debt Obligation Income Notes

Collateralized debt obligation income notes ("Income Notes") are equity interests in a multi-class, cash flow collateralized bond obligation backed by a collection of trust preferred securities issued by financial institutions. The equity interests represent ownership of all residual cash flow from the asset pools after all fees have been paid and debt issues have been serviced. Income Notes are collateralized by debt securities with stated maturities and are classified as Level 3 in the fair value hierarchy. Refer to Note 4, *Fair Value Measurements*, for further discussion of fair value.

In response to unprecedented volatility in the credit markets, the Company reevaluated its investment strategy and risk tolerance with respect to its investments in Income Notes. Based on this reassessment, the Company determined that its intent was to sell these securities when the market recovers rather than hold them for the long term. The change in intent resulted in the Company transferring its holdings of Income Notes from available-for-sale to trading securities on April 1, 2009, at their fair value of $2.4 million. There were no gross gains and gross losses included in earnings from the transfer of these securities. Trading securities are carried at fair value and unrealized holding gains and losses are included in earnings.

The Company recorded a $9.3 million impairment loss in earnings on its investment in Income Notes in the first quarter of 2009 prior to their transfer to trading securities and $18.1 million of impairment losses in 2008.

Perpetual Preferred Stock

The adjusted cost basis of the Company's investment in perpetual preferred stock issued by Freddie Mac ("FRE") and Fannie Mae ("FNM") was $0.3 million at December 31, 2010, compared with a fair value of $0.5 million, indicating that these securities were not impaired at year end. The Company recognized impairment losses on these securities of $0.3 million, $1.1 million and $21.9 million in 2010, 2009 and 2008, respectively, following the action taken by the Federal Housing Finance Agency to place these government-sponsored agencies into conservatorship and eliminating the dividends on their preferred shares. The $0.3 million impairment loss recognized in 2010 followed the voluntary delisting of FRE and FNM shares from the NYSE in June 2010. These shares currently trade on the OTC Bulletin Board.

Mutual Funds

The adjusted cost basis of available-for-sale mutual funds was $6.2 million at December 31, 2010, compared with a fair value of $9.9 million, reflecting an unrealized gain of $3.7 million. The Company recognized impairment losses of $1.6 million and $2.2 million on its investments in mutual funds in 2009 and 2008, respectively.

The following table provides 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

Table of Contents

continuous unrealized loss position as of December 31, 2010 and 2009. 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
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
December 31, 2009						
U.S. Treasury	$ 59,995	$ 2	$	$	$ 59,995	$ 2
Federal agency Debt	437,548	3,646			437,548	3,646
Federal agency MBS	285,328	4,055			285,328	4,055
CMOs Federal agency	634,732	12,206			634,732	12,206
CMOs Non-agency	35,192	428	180,699	30,809	215,891	31,237
State and municipal	18,187	340	4,500	390	22,687	730
Other debt securities			36,315	6,750	36,315	6,750
Total securities	$ 1,470,982	$ 20,677	$ 221,514	$ 37,949	$ 1,692,496	$ 58,626

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 consists 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 include 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 security. The Company does not consider the debt securities in the above table to be other than temporarily impaired at December 31, 2010.

Unrealized losses at December 31, 2010 include $10.6 million related to Federal agency CMOs and $9.7 million related to Non-agency CMOs. The unrealized loss on CMOs is primarily the result of higher market interest rates. Additionally, the unrealized loss on Non-agency CMOs reflects the lack of liquidity in this sector of the market. The Company only holds the most senior tranches of each non-agency issue which provides protection against defaults. Other than the $1.7 million credit loss recognized in 2010 on Non-agency CMOs, the Company expects to receive all contractual principal and interest payments due on its CMO debt securities. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment. The mortgages in these asset pools are relatively large and have been made to borrowers with strong credit history and significant equity invested in their homes. They are well diversified geographically. Nonetheless, significant further weakening of economic fundamentals coupled with significant increases in unemployment and substantial deterioration in the value of high-end residential properties could extend distress to this borrower population. This could increase default rates and put additional pressure on property values. Should adverse circumstances develop, the value of these securities could decline and trigger the recognition of further other-than-temporary impairment charges.

Table of Contents

Other debt securities include the Company's investments in two 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 December 31, 2010 are the most senior tranches for both principal and interest payments. 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 $9.0 million unrealized loss at December 31, 2010 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, 2009, total securities available-for-sale had a fair value of $4.31 billion, which included $1.69 billion of securities available-for-sale in an unrealized loss position as of December 31, 2009. At December 31, 2009, the Company had 155 debt securities in an unrealized loss position. The debt securities in an unrealized loss position include 1 U.S. Treasury bill, 15 Federal agency securities, 30 Federal agency MBS, 44 Federal agency CMOs, 29 private label CMOs, 32 state and municipal securities and 4 other debt securities.

Table of Contents

Loan and Lease Portfolio

The following table shows the Company's consolidated loans by type of loan and their percentage distribution:

	December 31,				
(in thousands)	**2010**	**2009**	**2008**	**2007**	**2006**
Commercial	$ 4,136,874	$ 4,335,052	$ 4,433,755	$ 4,193,436	$ 3,869,161
Commercial real estate mortgages	1,958,317	2,161,451	2,184,688	1,954,539	1,710,113
Residential mortgages	3,552,312	3,533,453	3,414,868	3,176,322	2,869,775
Real estate construction	467,785	835,589	1,252,034	1,429,761	1,115,958
Equity lines of credit	733,741	734,182	635,325	432,513	404,657
Installment loans	160,144	172,566	173,779	178,195	201,125
Lease financing	377,455	374,615	349,810	265,872	215,216
Loans and leases, excluding covered loans	11,386,628	12,146,908	12,444,259	11,630,638	10,386,005
Less: Allowance for loan and lease losses	(257,007)	(288,493)	(224,046)	(168,523)	(155,342)
Loans and leases, excluding covered loans, net	11,129,621	11,858,415	12,220,213	11,462,115	10,230,663
Covered loans	1,857,522	1,851,821			
Less: Allowance for loan losses	(67,389)				
Covered loans, net	1,790,133	1,851,821			
Total loans and leases	$ 13,244,150	$ 13,998,729	$ 12,444,259	$ 11,630,638	$ 10,386,005
Total loans and leases, net	$ 12,919,754	$ 13,710,236	$ 12,220,213	$ 11,462,115	$ 10,230,663
Commercial	36.3%	35.7%	35.6%	36.1%	37.3%
Commercial real estate mortgages	17.2	17.8	17.6	16.8	16.5
Residential mortgages	31.2	29.1	27.4	27.3	27.6
Real estate construction	4.1	6.9	10.1	12.3	10.7
Equity lines of credit	6.5	6.0	5.1	3.7	3.9
Installment loans	1.4	1.4	1.4	1.5	1.9
Lease financing	3.3	3.1	2.8	2.3	2.1
Loans and leases, excluding covered loans	100.0%	100.0%	100.0%	100.0%	100.0%

Total loans and leases were $13.24 billion, $14.00 billion, and $12.44 billion at December 31, 2010, 2009, and 2008, respectively. Total loans and leases, excluding covered loans, were $11.39 billion, $12.15 billion and $12.44 billion as of December 31, 2010, 2009 and 2008, respectively. Covered loans represent loans acquired from the FDIC that are subject to loss sharing agreements, and were $1.86 billion and $1.85 billion as of December 31, 2010 and 2009, respectively. Total loans and leases decreased 5 percent, or $0.75 billion, during 2010 compared with 2009. The decline reflects relatively weak loan demand due to challenging business and economic conditions, along with the Company's continued progress in reducing the number of problem loans in its portfolio. The decrease was partially offset by the purchase of loans in the FDIC-assisted acquisitions of FPB and SWB in May 2010. Total loans and leases, excluding covered loans, decreased 6 percent, or $0.76 billion, during 2010 compared with 2009. Commercial loans, including lease financing, and commercial real estate mortgage loans decreased 4 percent and 9 percent, respectively. Construction loans decreased $367.8 million, or 44 percent, from 2009. Residential mortgage loans grew 1 percent. Installment loans decreased 7 percent, while equity lines of credit were relatively unchanged from 2009.

Total loans increased $1.55 billion during 2009 compared with 2008, due primarily to the purchase of loans in the FDIC-assisted acquisition of ICB in December 2009. Total loans, excluding covered loans, decreased $297.4 million during 2009 compared with 2008, largely due to a decline in construction loans.

The following loan information excludes covered loans. Covered loans are discussed in more detail on page 85 of this section.

Commercial and Lease Financing

Commercial loans, including lease financing, were $4.51 billion at December 31, 2010, representing 39.6 percent of the loan portfolio, excluding covered loans, compared with $4.71 billion, or 38.8 percent of the loan portfolio, at December 31, 2009. The average outstanding loan balance per borrower in the commercial loan portfolio at December 31, 2010 was approximately $1.0 million.

To grow, diversify and manage concentration risk of the Company's loan portfolio, the Company purchases and sells participations in loans. Included in this portfolio are purchased participations in Shared National Credits ("SNC"). As of December 31, 2010, purchased SNC commitments totaled $1.18 billion, or 7 percent of total loan commitments. Outstanding loan balances on purchased SNCs were $535.5 million, or approximately 5 percent of total loans outstanding, excluding covered loans, and 4 percent of total loans outstanding at December 31, 2010. At December 31, 2009, purchased SNC commitments totaled $1.03 billion, and outstanding balances totaled $631.0 million. The increase in the purchased SNC portfolio during 2010 was related to commercial credits.

SNC purchases represent a prudent portfolio growth and diversification strategy for the Company. It provides the Company the opportunity to extend credit and other fee-based services and products to companies and their owners and/or principals, whose borrowing needs exceed the Company's desired credit exposure to one borrower. Risk is shared among several banks. The Company generally purchases SNCs where either the owner or the borrower has operations domiciled in the Company's market area and where there is an opportunity to cross-sell products and services in addition to the subject credit facility. The Company performs a similar level of due diligence on SNC as it does for non-SNC credit facilities. The amount of purchased SNC loans is controlled and monitored through the Company's concentration limits. SNC loans are originated by selected departments that specialize and understand the complexity of larger loans and borrowers. By definition there is no fundamental difference in credit risk between a SNC and a non-SNC borrower. The Company believes the primary risk associated with a SNC loan compared to a non-SNC loan is that the account management strategy is subject to a consensus agreement among the agent bank and the lenders, which may differ from the Company's account management strategy. The Company manages this risk by purchasing SNC loans only from pre-approved agent banks, where the Company evaluates the agent bank's industry and management expertise. Additionally, the Company evaluates the financial capacity of the agent bank through its Regulation F process for managing Interbank liabilities. This includes performing periodic financial analyses of the agent bank and tracking and maintaining exposure levels consistent with the credit quality.

Table of Contents

Following is a breakdown of commercial loans and lease financing to businesses engaged in the industries listed:

Commercial Loans and Leases by Industry

	December 31,			
(in thousands)	**2010**	**%**	**2009**	**%**
Services (1)	$ 839,780	18.6	$ 868,090	18.4
Entertainment	993,960	22.0	1,010,704	21.5
Wholesale trade	239,329	5.3	253,464	5.4
Manufacturing	293,210	6.5	352,924	7.5
Public finance	310,985	6.9	257,002	5.4
Real estate owner/lessors (2)	415,335	9.2	461,885	9.8
Construction/development (2)	131,052	2.9	233,749	5.0
Finance and insurance	683,663	15.1	705,429	15.0
Retail trade	417,463	9.3	377,352	8.0
Other	189,552	4.2	189,068	4.0
Total	$ 4,514,329	100.0	$ 4,709,667	100.0
Nonaccrual loans	$ 20,633		$ 81,989	
Percentage of total commercial loans	0.46%		1.74%	

(1) Legal, membership organizations, engineering and management services, etc.

(2) Not secured by real estate.

Residential Mortgage

Residential mortgage loans comprised 31.2 percent of total loans, excluding covered loans, at the end of 2010, and grew $18.9 million, or 1 percent, to $3.55 billion at December 31, 2010. Residential mortgage loans are originated internally, primarily as an accommodation to private banking clients. None of the Company's loans have been originated through brokers or third parties. The Company has not purchased any residential mortgage loans since 1997, except for CRA purposes and the covered residential mortgage loans acquired in FDIC-assisted acquisitions in 2009 and 2010. The residential first mortgage loans originated internally have an average loan-to-value ("LTV") ratio of 57 percent at origination for 2010 and 2009. The average LTV ratio is calculated as a simple average of LTV ratios at origination. The Company's average LTV ratio has remained steady and is indicative of the quality of the Company's underwriting standards. The average outstanding loan balance per borrower in the residential mortgage loan portfolio at December 31, 2010 was $1.0 million. At December 31, 2010, residential mortgage loans totaling approximately $18.7 million were on nonaccrual compared to $15.5 million at December 31, 2009.

Table of Contents

The following table provides the composition of residential mortgage loans at December 31, 2010 by LTV ratio at origination:

Loan-to-value	Residential mortgages
Less than 60%	60.3%
Over 60% through 65%	12.1
Over 65% through 70%	10.4
Over 70% through 75%	11.4
Over 75% through 80%	5.5
Over 80%	0.3

Commercial Real Estate Mortgage

Commercial real estate mortgages, representing 17.2 percent of the loan portfolio, excluding covered loans, were comprised of 95.4 percent commercial properties and 4.6 percent multi-family condominium or apartment loans. The average outstanding loan balance per borrower in the commercial real estate mortgage portfolio at December 31, 2010 was $1.8 million.

A breakdown of real estate mortgage loans by collateral type follows:

Commercial Real Estate Mortgage Loans by Collateral Type

	December 31,			
(in thousands)	2010	%	2009	%
Industrial	$ 829,011	42.3	$ 885,948	41.0
Office buildings	422,315	21.6	461,525	21.4
Shopping centers	252,128	12.9	267,202	12.4
Land, agriculture	46,160	2.4	45,442	2.1
Non-profit (religious/schools)	13,762	0.7	22,330	1.0
Auto dealership	38,227	1.9	51,258	2.4
Condominiums/apartments	90,178	4.6	112,917	5.2
Other	266,536	13.6	314,829	14.5
Total	$ 1,958,317	100.0	$ 2,161,451	100.0
Nonaccrual loans	$ 44,882		$ 76,027	
Percentage of total commercial real estate mortgage loans	2.29%		3.52%	

Real Estate Construction

The real estate construction portfolio includes land loans and loans to develop or construct and sell residential and commercial properties. These loans represent 4.1 percent of the Company's $11.39 billion loan portfolio, excluding covered loans, and a significant majority of the loans have guarantors. The real estate construction portfolio includes approximately $101.3 million of loans to borrowers in the for-sale housing industry compared to $190.2 million as of December 31, 2009. Real estate construction loans are made on the basis of the economic viability for the specific project, the cash flow resources of the developer, the developer's equity in the project, and the underlying financial strength of the borrower. The Company's policy is to monitor each loan with respect to the project's incurred costs, sales price and absorption. The average outstanding loan balance per borrower in the real estate construction loan portfolio at December 31, 2010 was $5.79 million.

Table of Contents

Following is a breakdown of real estate construction loans by collateral type:

Real Estate Construction Loans by Collateral Type

	December 31,			
(in thousands)	**2010**	**%**	**2009**	**%**
Industrial	$ 42,609	9.1	$ 135,219	16.2
1-4 family	35,996	7.7	82,420	9.9
Office buildings	49,163	10.5	86,210	10.3
Land, commercial	71,001	15.2	140,341	16.8
Land, residential	65,271	14.0	107,766	12.9
Shopping centers	45,786	9.8	90,982	10.9
Condominiums/apartments	83,757	17.9	124,932	14.9
Other	74,202	15.8	67,719	8.1
Total	$ 467,785	100.0	$ 835,589	100.0
Nonaccrual loans	$ 98,209		$ 202,605	
Percentage of total real estate construction loans	20.99%		24.25%	

Equity Lines of Credit

Equity lines of credit which comprised 6.4 percent of total loans, excluding covered loans, at December 31, 2010 are made primarily to existing clients. Equity lines of credit originated internally have an average cumulative LTV ratio of 53 percent at origination for 2010 and 2009. The average LTV ratio is calculated as a simple average of LTV ratios at origination. The quality of the portfolio is due to the Company's conservative underwriting standards at origination. The average outstanding loan balance per borrower in the equity lines of credit portfolio at December 31, 2010 was $0.3 million. At December 31, 2010, equity lines of credit totaling approximately $6.8 million were on nonaccrual compared to $3.4 million at December 31, 2009.

The following table provides the composition of equity lines of credit at December 31, 2010 by LTV ratio at origination:

Loan-to-value	**Equity lines of credit**
Less than 60%	59.4%
Over 60% through 65%	15.1
Over 65% through 70%	10.8
Over 70% through 75%	8.9
Over 75% through 80%	4.3
Over 80%	1.5

Installment

Installment loans consist primarily of loans to individuals for personal purchases. At December 31, 2010, installment loans comprised 1.4 percent of total loans, excluding covered loans. The average outstanding loan balance per borrower in the installment loan portfolio at December 31, 2010 was $0.1 million. Installment loans totaling approximately $1.7 million were on nonaccrual at December 31, 2010 compared to $9.2 million at December 31, 2009.

Table of Contents

Covered Loans

Covered loans represent loans acquired from the FDIC that are subject to loss sharing agreements and were $1.86 billion as of December 31, 2010 and $1.85 billion at December 31, 2009. Covered loans, net of allowance for loan losses of $67.4 million, were $1.79 billion as of December 31, 2010. There was no allowance for loan losses on covered loans as of December 31, 2009.

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

(in thousands)	December 31, 2010	December 31, 2009
Commercial	$ 55,082	$ 10,337
Commercial real estate mortgages	1,569,739	1,640,828
Residential mortgages	18,380	7,477
Real estate construction	204,945	193,179
Equity lines of credit	6,919	
Installment loans	2,457	
Total covered loans	1,857,522	1,851,821
Less: Allowance for loan losses	(67,389)	
Total covered loans, net	$ 1,790,133	$ 1,851,821

The Company evaluated the acquired loans from ICB, FPB and SWB and concluded that all loans, with the exception of a small population of acquired loans, would be accounted for under ASC 310-30. Loans are accounted for under ASC 310-30 when there is evidence of credit deterioration since origination and for which it is probable, at acquisition, that the Company would be unable to collect all contractually required payments.

As of the respective acquisition dates, the preliminary estimates of the contractually required payments for all acquired impaired loans of FPB and SWB were $643.3 million, the cash flows expected to be collected were $378.9 million, and the fair value of the loans was $330.6 million. These amounts were determined based on the estimated remaining life of the underlying loans, which includes the effects of estimated prepayments. As fair value of the acquired loans included estimated credit losses, an allowance for loan losses was not recorded at acquisition date. Interest income is recognized on all acquired impaired loans through accretion of the difference between the carrying amount and the expected cash flows of the loans.

Table of Contents

Loan Maturities

The loan maturities shown in the table below are based on contractual maturities. As is customary in the banking industry, loans that meet sound underwriting criteria can be renewed by mutual agreement between the Company and the borrower. Because the Company is unable to estimate the extent to which its borrowers will renew their loans, the table is based on contractual maturities.

Loan Maturities

	December 31, 2010							
(in thousands)	Commercial	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Equity Lines of Credit	Installment	Covered Assets	Total
Aggregate maturities of balances due:								
In one year or less								
Interest rate floating	$ 1,561,957	$ 200,685	$ 14,833	$ 264,833	$ 3,274	$ 81,876	$ 192,252	$ 2,319,710
Interest rate fixed	270,101	33,441	8,271	10,422		41,463	157,891	521,589
After one year but within five years								
Interest rate floating	1,591,318	225,556	24,367	168,993	56,385	3,794	267,105	2,337,518
Interest rate fixed	426,598	396,097	62,221	15,404		13,250	74,855	988,425
After five years								
Interest rate floating	256,985	319,582	1,876,411	4,750	674,082	6,484	1,062,896	4,201,190
Interest rate fixed	407,370	782,956	1,566,209	3,383		13,277	102,523	2,875,718
Total loans	$ 4,514,329	$ 1,958,317	$ 3,552,312	$ 467,785	$ 733,741	$ 160,144	$ 1,857,522	$ 13,244,150
Percentage of floating rate loans to total loans	76%	38%	54%	94%	100%	58%	82%	67%

Floating-rate loans comprised 67 percent of the total loan portfolio at December 31, 2010 compared to 69 percent at December 31, 2009. Hybrid loans, which convert from fixed to floating rates, are included in floating-rate loans.

Other

The federal banking regulatory agencies issued final guidance on December 6, 2006 on risk management practices for financial institutions with high or increasing concentrations of commercial real estate ("CRE") loans on their balance sheets. The regulatory guidance reiterates the need for sound internal risk management practices for those institutions that have experienced rapid growth in CRE lending, have notable exposure to specific types of CRE, or are approaching or exceeding the supervisory criteria used to evaluate the CRE concentration risk, but the guidance is not to be construed as a limit for CRE exposure. The supervisory criteria are: total reported loans for construction, land development and other land represent 100 percent of the institution's total risk-based capital, and both total CRE loans represent 300 percent or more of the institution's total risk-based capital and the institution's CRE loan portfolio has increased 50 percent or more within the last 36 months. As of December 31, 2010, total loans for construction, land development and other land represented 32 percent of total risk-based capital; total CRE loans represented 164 percent of total risk-based capital and the total portfolio of loans for construction, land development, other land and CRE increased 16 percent over the last 36 months.

The Company has no residential mortgage loans with high LTVs at origination (as defined in FDICIA as greater than 90 percent), loans with option ARM terms, as defined in ASC 825-10-55, *Financial Instruments Concentrations Involving Loan Product Terms*, or that allow for negative amortization. The Company does offer interest-only loans. Excluding covered loans, there were interest-only residential mortgages totaling approximately $975.4 million and home equity lines of credit

Table of Contents

totaling approximately $733.7 million as of December 31, 2010. As of December 31, 2009, there were interest-only residential mortgages totaling approximately $945.1 million and home equity lines of credit totaling approximately $734.2 million.

The Company's policy defines subprime loans as loans to applicants who typically have impaired credit histories, reduced repayment capacity, and a relatively higher default probability. Subprime credit risk characteristics may include:

- Two or more 30-day delinquencies in the last 12 months, or one or more 60-day delinquencies in the last 24 months;
- A judgment, foreclosure, repossession, or charge-off in the prior 24 months;
- A bankruptcy in the last five years;
- A credit bureau risk score (FICO) of 660 or less; and/or
- Debt-to-income ratio of 50 percent or greater

The Company does not, and has not, offered a subprime loan program. All loans are judgmentally underwritten by reviewing the client's credit history, payment capacity and collateral value. The Company does not consider loans with the above characteristics to be subprime if strong and verifiable mitigating factors exist. Mitigating factors include guarantees, low LTV ratios and verified liquidity. As of December 31, 2010, the Company did not have any subprime loans in its loan portfolio based on the Company's definition.

One of the significant risks associated with real estate lending involves environmental hazards on or in property affiliated with the loan. The Company analyzes such risks through an evaluation performed by the Bank's Environmental Risk Management Unit for all loans secured by real estate. A Phase I Environmental Site Assessment ("ESA") report may be required if the evaluation determines it appropriate. Other reasons would include the industrial use of environmentally sensitive substances or the proximity to other known environmental problems. A more comprehensive Phase II ESA report is required in certain cases, depending on the outcome of the Phase I report.

Underwriting Guidelines

The Company has established underwriting guidelines for the origination of commercial loans. Generally, the factors listed below are considered in the evaluation of a loan request. Additionally, the credit facilities are governed by loan agreements which require the periodic submission of financial and collateral information that enables the Company to ascertain the financial condition of the borrowers and guarantors, adherence with covenants and condition of collateral.

Commercial Loans

- Character and creditworthiness of the borrower and guarantors
- Financial capacity of the guarantor including an assessment of their balance sheet, income statement and cash flows
- Collateral
- Industry trends and economic conditions

Stress testing for changes in interest rates, cash flow and other assumptions

Condition and requirements of the debt markets to determine the borrower's ability to refinance the loan at maturity

Table of Contents

Commercial Real Estate and Construction Loans

- Character and creditworthiness of the borrower and guarantors
- Project feasibility including but not limited to location, project design, functionality and market conditions
- Trends in lease rates, sale prices, absorption rates, lessee rollover rates and pre-leasing
- Loan to value
- Cash equity in project or collateral
- Debt service coverage
- Stress testing for changes in interest rates, cap rates and other factors
- Condition and requirements of the debt markets to determine the borrowers' ability to refinance the loan at maturity

Residential Mortgage Loans

- Debt to income ratios
- Housing expense to income ratios
- Loan to value
- FICO score
- Liquidity reserves available
- Down payment
- Stability of income
- Documentation types are limited to full documentation or stated income, verified assets
- The loan amount of any stated income, verified asset loan is further limited by a combination of LTV (maximum of 65 percent) and FICO score

Equity Lines of Credit

- Debt to income ratios
- Payment for underwriting calculated as if line is fully extended and amortized over 15 years
- Variable rate loans are underwritten at fully indexed rate
- Cumulative loan to value
- Stability of income
- Full documentation only
- Lien position limited to 1st or 2nd position
- Owner-occupied or vacation homes only

The Company underwrites variable rate loans at fully indexed rates.

Hybrid loans have a 30-year maturity with a fixed period ranging from 3 to 10 years which converts to an adjustable rate mortgage with full amortization over the remaining maturity. All hybrid loans are tied to the 1-Year Constant Maturities Treasury (CMT) index, with interest rate adjustments occurring annually. The initial rate cap is a maximum of 2 percent for 3-year fixed-rate period loans and

Table of Contents

5 percent for 5, 7 and 10-year fixed-rate period loans. The annual rate cap thereafter is a maximum of 2 percent, with lifetime caps of 6 percent and 5 percent, respectively. The minimum floor rate is 3.5 percent. The Company does not originate negative amortization loans. The Company typically originates mortgage loans to existing private banking clients whose history is well known to the Company. The underwriting policies for hybrid loans are the same as the underwriting policies for residential mortgage loans.

The Company's loan policy provides that any term loan on non-owner occupied properties should have minimum debt service coverage at origination ranging from 1.25 to 1 through 1.35 to 1 depending on property type. Any exception to these guidelines requires approval at higher levels of authority based on the type of exception. Exceptions are reviewed by the Credit Policy Committee of the Bank.

The Company seeks to manage and control its risk through the use of specific maximum loan-to-value guidelines at origination for various categories of real estate-related loans other than residential first mortgage loans. These ratios at December 31, 2010 exclude acquired loans that are covered by an FDIC loss share agreement and are as follows:

LTV Guidelines

Category of Real Estate Collateral	LTV Ratio
1-4 family	75%
Multi-family	75
Equity lines of credit	75
Industrial	75
Shopping centers	75
Churches/religious	65
Office building	70
Other improved property	65
Acquisition and development	65
Land, nonresidential	50

Asset Quality

Credit Risk Management

The Company's loan portfolio consists primarily of loans for business and real estate purposes. Generally, loans are made on the basis of an available cash-flow repayment source as the first priority, with collateral being a secondary source for loan qualification. Although the legal lending limit for any one borrowing relationship was $341.7 million at December 31, 2010, the Bank has established "house limits" for individual borrowings. These limits vary by internal risk rating.

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

The loan portfolios are monitored through delinquency tracking and a dynamic risk rating process that is designed to detect early signs of deterioration. In addition, once a loan has shown signs of deterioration, it is transferred to a Special Assets Department that consists of professionals who specialize in managing problem assets. An oversight group meets monthly to review the progress of

Table of Contents

problem loans and other real estate owned. Also, the Company has established portfolio review requirements that include a periodic review and risk assessment by the Risk Management Division that reports to the Audit & Risk Committee of the Board of Directors.

Geographic Concentrations and Economic Trends by Geographic Region

The Company's lending activities are predominately in California, and to a lesser extent, New York and Nevada. Excluding covered loans, at December 31, 2010, California represented 86 percent of total loans outstanding and Nevada and New York represented 2 percent and 6 percent, respectively. The remaining 6 percent of total loans outstanding represented other states. Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of Southern California. California has experienced significant declines in real estate values and adverse effects of the recession. California also faces a significant budget deficit and its unemployment rate at December 31, 2010 was approximately 13 percent. The Company's loan portfolio has been affected by the economy, but the impact is lessened by the Company having most of its loans in large metropolitan California cities such as Los Angeles, San Francisco and San Diego and lesser in the outlying suburban communities that have seen higher declines in real estate values. Within the Company's Commercial loan portfolio, the five California counties with the largest exposures are Los Angeles (54 percent), Orange (6 percent), San Diego (6 percent), Ventura (3 percent) and San Francisco (2 percent). Within the Commercial Real Estate Mortgage loan portfolio, the five California counties with the largest exposures are Los Angeles (38 percent), Orange (12 percent), San Diego (6 percent), Ventura (6 percent) and Contra Costa (4 percent). For the Real Estate Construction loan portfolio, the concentration in California is predominately in Los Angeles (54 percent), Santa Barbara (9 percent), Orange (7 percent), Contra Costa (6 percent), and Sacramento (3 percent).

Southern California has been impacted by the economic downturn as evidenced by an increase in unemployment, reduction in taxable sales and a reduction in construction and development among other factors. However, its recovery is expected to occur sooner than Nevada's recovery. The state of residential and commercial real estate sector in Southern California has significant impact on the performance of the Company's commercial real estate and commercial and industrial loan portfolios. The performance of each underlying loan within the Company's Southern California commercial real estate portfolio will differ based on the location and the corresponding supply and demand for each product type. Additionally, real estate values vary and are dependent on sub-market location, lease terms, cap rates and credit strength of tenant among other attributes.

Table of Contents

The table below presents fourth quarter 2010 vacancy and rent trends for each product type by market areas in California:

(in millions) Product Type and Market Areas	Rents 4th Quarter 2010	4th Quarter 2009	% Change	2010 Vacancy %
Apartments *(Average monthly rent per unit)*				
Los Angeles County	$ 1,347	$ 1,339	0.6%	4.9%
Orange County	1,461	1,441	1.4	5.4
San Bernardino/Riverside County	994	990	0.4	6.5
San Diego County	1,299	1,278	1.6	4.1
Ventura County	1,356	1,329	2.0	4.9
San Francisco County	1,775	1,717	3.4	4.3
Oakland/East Bay	1,276	1,252	1.9	4.5
San Jose	1,459	1,401	4.1	3.8
Industrial *(Average annual rent per square foot)*				
Los Angeles County	$ 5.48	$ 5.77	(5.0)%	6.2%
Orange County	5.83	6.25	(6.7)	6.3
San Bernardino/Riverside County	3.96	4.12	(3.9)	10.7
San Diego County	6.14	6.33	(3.0)	9.8
Ventura County	6.86	7.01	(2.1)	5.1
San Francisco County	6.23	6.31	(1.3)	14.1
Oakland/East Bay	4.68	4.85	(3.5)	11.2
San Jose	6.26	6.47	(3.2)	17.8
Retail *(Average annual rent per square foot)*				
Los Angeles County	$ 25.13	$ 25.84	(2.7)%	6.2%
Orange County	26.52	27.04	(1.9)	6.6
San Bernardino/Riverside County	17.94	18.31	(2.0)	10.2
San Diego County	25.19	25.43	(0.9)	7.5
Ventura County	24.69	25.20	(2.0)	9.8
San Francisco County	29.96	30.53	(1.9)	3.6
Oakland/East Bay	24.84	25.11	(1.1)	6.7
San Jose	26.65	27.02	(1.4)	6.0
Office *(Average annual rent per square foot)*				
Los Angeles County	$ 25.75	$ 26.62	(3.3)%	14.8%
Orange County	19.75	21.15	(6.6)	20.6
San Bernardino/Riverside County	17.37	17.52	(0.9)	24.8
San Diego County	22.48	23.17	(3.0)	18.6
Ventura County	20.63	20.66	(0.1)	17.0
San Francisco County	29.75	29.82	(0.2)	15.6
Oakland/East Bay	19.95	20.62	(3.2)	20.4
San Jose	22.48	23.27	(3.4)	22.5

Note: Rent and vacancy information is provided by unaffiliated service bureaus.

Generally, loan portfolios related to borrowers or properties located within Nevada have fared worse than California and New York. The Nevada economy continues to struggle and the recovery is anticipated to be protracted and it is dependent on economic improvement at the national level such that Nevada tourism increases to a level that supports new jobs and real estate development. The decline in the economy has led to an increase in the Nevada unemployment rate to approximately

Table of Contents

15 percent as of December 31, 2010. The consensus outlook for 2011 is that the Nevada economy will remain challenged as residential foreclosures continue to mount and overall consumer spending is expected to remain suppressed given nationwide higher unemployment and general uncertainty about the economy. The Company's Nevada portfolio has been broadly affected with the most significant stress in the construction and land portfolios. The Company has very few residential mortgage loans in Nevada. The New York loan portfolio primarily relates to private banking clients in the Entertainment and Legal industries which continue to perform well.

Greater Las Vegas, where the Company has a majority of its Nevada-based loan exposure has significant unemployment, high rates of foreclosure, and had very limited demand for residential and commercial building permits. Additionally, existing commercial real estate properties have experienced significant declines in rents and occupancy levels based on the fourth quarter 2010 data presented below:

	Rents			
Product Type	**4th Quarter 2010**	**4th Quarter 2009**	**% Change**	**2010 Vacancy %**
Apartments *(Average monthly rent per unit)*	$ 768	$ 783	(3.8)%	9.1%
Industrial *(Average annual rent per square foot)*	5.67	6.47	(1.9)	11.9
Retail *(Average annual rent per square foot)*	18.36	19.13	(12.6)	12.6
Office *(Average annual rent per square foot)*	18.29	19.02	(4.0)	24.7

Note: Rent and vacancy information is provided by an unaffiliated service bureau.

Within the Company's covered loan portfolio at December 31, 2010, the five states with the largest concentration were California (42 percent), Texas (12 percent), Nevada (6 percent), New York (5 percent) and Arizona (4 percent). The remaining 31 percent of covered loans outstanding represented other states.

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

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

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

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

Table of Contents

The following table summarizes the activity in the allowance for loan and lease losses and the reserve for off-balance sheet credit commitments, excluding covered loans, for the five years ended December 31. Activity is provided by loan type which is consistent with the Company's methodology for determining the allowance for loan and lease losses.

	Year ended December 31,				
(in thousands)	**2010**	**2009**	**2008**	**2007**	**2006**
Loans and leases outstanding, excluding covered loans	$ 11,386,628	$ 12,146,908	$ 12,444,259	$ 11,630,638	$ 10,386,005
Average loans and leases outstanding, excluding covered loans	$ 11,576,380	$ 12,296,619	$ 12,088,715	$ 11,057,411	$ 9,948,363
Allowance for loan and lease losses(1)					
Balance, beginning of the year	$ 288,493	$ 224,046	$ 168,523	$ 155,342	$ 153,983
Loans charged-off:					
Commercial	(69,427)	(93,590)	(25,257)	(7,768)	(7,320)
Commercial real estate mortgages	(29,833)	(8,775)	(552)	(297)	(94)
Residential mortgages	(3,327)	(2,514)			
Real estate construction	(36,020)	(125,358)	(44,097)	(5,929)	(684)
Equity lines of credit	(2,120)	(2,016)		(50)	(11)
Installment	(2,529)	(5,018)	(1,116)	(187)	(62)
Total loans charged-off	(143,256)	(237,271)	(71,022)	(14,231)	(8,171)
Recoveries of loans previously charged-off:					
Commercial	6,131	5,908	2,034	5,265	9,482
Commercial real estate mortgages	235	112		11	1,305
Residential mortgages	130	109	62		
Real estate construction	5,436	4,907	348	438	68
Equity lines of credit	152	2			
Installment	875	317	100	40	113
Total recoveries	12,959	11,355	2,544	5,754	10,968
Net loans (charged-off)/recovered	(130,297)	(225,916)	(68,478)	(8,477)	2,797
Provision for credit losses	103,000	285,000	127,000	20,000	(610)
Transfers (to) from reserve for off-balance sheet credit commitments	(4,189)	5,363	(2,999)	(2,855)	(828)
Allowance of acquired institution				4,513	
Balance, end of the year	$ 257,007	$ 288,493	$ 224,046	$ 168,523	$ 155,342
Net (charge-offs)/recoveries to average loans and	(1.13)%	(1.84)%	(0.57)%	(0.08)%	0.03%

leases, excluding covered loans										
Allowance for loan and lease losses to total period-end loans and leases, excluding covered loans		2.26%		2.38%		1.80%		1.45%		1.50%
Reserve for off-balance sheet credit commitments										
Balance, beginning of the year	$	17,340	$	22,703	$	19,704	$	16,424	$	15,596
Recovery of prior charge-off								(67)		
Reserve of acquired institution								492		
Provision for credit losses/transfers		4,189		(5,363)		2,999		2,855		828
Balance, end of the year	$	21,529	$	17,340	$	22,703	$	19,704	$	16,424

(1) The allowance for loan and lease losses does not include any amounts related to covered loans.

Table of Contents

Based on an evaluation of individual credits, previous loan and lease loss experience, management's evaluation of the current loan portfolio, and current economic conditions, management has allocated the allowance for loan and lease losses on non-covered loans as shown for the past five years in the table below:

Allocation of Allowance for Loan and Lease Losses

	Allowance amount					Percent of loans to total loans				
(in thousands)	**2010**	**2009**	**2008**	**2007**	**2006**	**2010**	**2009**	**2008**	**2007**	**2006**
Commercial and lease financing	$ 82,452	$ 110,547	$ 77,323	$ 59,921	$ 60,375	31%	38%	35%	36%	39%
Commercial real estate mortgages	52,516	52,011	33,889	24,524	25,923	20	18	15	14	17
Residential mortgages	16,752	12,797	7,033	6,828	6,386	7	4	3	4	4
Real estate construction	40,824	53,722	48,401	28,370	12,593	16	19	22	17	8
Equity lines of credit	7,229	3,734	2,772	2,211	5,057	3	1	1	1	3
Installment	3,931	4,665	2,983	2,474	2,685	2	2	1	2	2
Unallocated	53,303	51,017	51,643	44,195	42,323	21	18	23	26	27
Total	$ 257,007	$ 288,493	$ 224,044	$ 168,523	$ 155,342	100%	100%	100%	100%	100%

(1) Prior periods have been reclassified to conform to current period presentation.

While the allowance is allocated by loan type above, the allowance is general in nature and is available for the portfolio in its entirety. The decrease in the allowance for 2010 compared to 2009 reflects credit quality improvements in the Company's loan portfolio. In 2009, increased allocations to commercial, commercial real estate mortgage and real estate construction loans reflected the upheaval in the credit markets, ongoing weakness in the real estate sector and stress in the general economy.

The following table summarizes the activity in the allowance for loan losses on covered loans for the years ended December 31, 2010 and 2009:

	Year ended December 31,	
(in thousands)	**2010**	**2009**
Balance, beginning of period	$	$
Provision for losses	(76,218)	
Charge-offs	414	
Reduction in allowance due to loan removals	8,415	
Balance, end of period	$ (67,389)	$

The allowance for loan losses on covered loans was $67.4 million as of December 31, 2010. The Company recorded provision expense of $76.2 million in 2010. Approximately $0.4 million of the provision on covered loans related to acquired loans that are outside the scope of ASC 310-30. 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 in 2010 is mainly the result of lower projected interest cash flows due to the Company's revised default forecasts, though credit losses remain in line with previous expectations. The revisions of the default forecasts were based on the results of management's review of the credit quality of the covered loans and the analysis of the loan performance data since the acquisition of covered loans. The allowance for loan losses on covered loans is reduced for any loan removals. A loan is removed when it has been fully paid-off, fully charged off, sold or transferred to OREO.

94

Table of Contents

Impaired Loans

Loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. The assessment for impairment occurs when and while such loans are on nonaccrual, or when the loan has been restructured. When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the primary (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. As a final alternative, the observable market price of the debt may be used to assess impairment. Impaired loans with commitments of less than $500,000 are aggregated for the purpose of measuring impairment using historical loss factors as a means of measurement.

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

The following table presents information on impaired loans at December 31, 2010 and 2009:

	December 31,			
	2010		2009	
(in thousands)	Loans and Leases	Related Allowance	Loans and Leases	Related Allowance
Impaired loans, excluding covered loans:				
Nonaccrual loans (1)	$ 179,578		$ 375,743	
Troubled debt restructured loans on accrual	10,834			
Total impaired loans, excluding covered loans	$ 190,412		$ 375,743	
Total impaired loans with an allowance	$ 41,279	$ 5,444	$ 274,671	$ 55,808
Total impaired loans with no related allowance	149,133		101,072	
Total impaired loans by loan type:				
Commercial	$ 15,860	$ 2,592	$ 69,783	$ 25,247
Commercial real estate mortgages	42,580	1,889	75,548	8,214
Residential mortgages	16,889	342	13,886	546
Real estate construction	108,221	366	201,442	19,070
Equity lines of credit	4,859	255	1,200	
Installment	1,148		8,071	2,731
Lease financing	855		5,813	
Total impaired loans, excluding covered loans	$ 190,412	$ 5,444	$ 375,743	$ 55,808
Impaired covered loans	$ 2,557		$	

(1) Impaired loans exclude $11.3 million and $13.0 million of nonaccrual loans under $500,000 that are not individually evaluated for impairment at December 31, 2010 and 2009, respectively.

Impaired loans, excluding covered loans, were $190.4 million at December 31, 2010 compared to $375.7 million at December 31, 2009. Impaired covered loans were $2.6 million at December 31, 2010

Table of Contents

and related to the Company's population of acquired covered loans that are accounted for outside the scope of ASC 310-30.

Nonaccrual, Past Due, and Troubled Debt Restructured Loans

Total nonperforming assets (nonaccrual loans and OREO), excluding covered assets, were $248.2 million, or 2.17 percent of total loans and OREO, excluding covered assets, at December 31, 2010, compared with $442.0 million, or 3.62 percent, at December 31, 2009. The Company had non-covered OREO of $57.3 million and $53.3 million at December 31, 2010 and December 31, 2009, respectively.

Total nonperforming covered assets were $123.4 million and $60.6 million at December 31, 2010 and 2009, respectively. Nonperforming covered assets consisted of nonaccrual covered loans of $2.6 million and covered OREO of $120.9 million at December 31, 2010 compared to covered OREO of $60.6 million at December 31, 2009.

Troubled debt restructured loans were $32.5 million, before specific reserves of $1.6 million, at December 31, 2010. Troubled debt restructured loans at December 31, 2010 include $10.8 million of restructured loans that have been returned to accrual status. These loans will continue to be reported as impaired until they have a demonstrated period of performance. At December 31, 2009, troubled debt restructured loans were $11.2 million, before specific reserves of $1.0 million. There were no troubled debt restructured loans on accrual status at December 31, 2009. There were no commitments to lend additional funds on restructured loans at December 31, 2010.

Table of Contents

The following table presents information concerning nonaccrual loans, OREO and loans which are contractually past due 90 days or more as to interest or principal payments and still accruing:

(in thousands)	December 31, 2010	2009	2008	2007	2006
Nonperforming assets, excluding covered assets					
Nonaccrual loans, excluding covered loans					
Commercial	$ 20,633	$ 81,989	$ 46,238	$ 17,103	$ 2,977
Commercial real estate mortgages	44,882	76,027	8,924	1,621	4,849
Residential mortgages	18,721	15,488	3,171	387	
Real estate construction	98,209	202,605	149,536	55,632	12,678
Equity lines of credit	6,782	3,422	1,921	679	
Installment	1,696	9,176	1,352	139	379
Total nonaccrual loans, excluding covered loans	190,923	388,707	211,142	75,561	20,883
OREO, excluding covered OREO	57,317	53,308	11,388		
Total nonperforming assets, excluding covered assets	$ 248,240	$ 442,015	$ 222,530	$ 75,561	$ 20,883
Nonperforming covered assets					
Nonaccrual loans	$ 2,557	$	$	$	$
OREO	120,866	60,558			
Total nonperforming covered assets	$ 123,423	$ 60,558	$	$	$
Ratios (excluding covered assets):					
Nonaccrual loans as a percentage of total loans	1.68%	3.20%	1.70%	0.65%	0.20%
Nonperforming assets as a percentage of total loans and OREO	2.17	3.62	1.79	0.65	0.20
Allowance for loan and lease losses to nonaccrual loans	134.61	74.22	106.11	223.03	743.87
Allowance for loan and lease losses to total nonperforming assets	103.53	65.27	100.68	223.03	743.87
Allowance for loan and lease losses to total loans and leases	2.26	2.38	1.80	1.45	1.50
Loans 90 days or more past due on accrual status, excluding covered loans:					
Commercial	$ 2,120	$ 3,651	$	$	$
Commercial real estate mortgages		1,582			
Residential mortgages	379	456	663		
Other				1	337
Total	$ 2,499	$ 5,689	$ 663	$ 1	$ 337
Covered loans 90 days or more past due on accrual status	$ 399,019	$ 173,309	$	$	$

Company policy requires that a loan be placed on nonaccrual status if either principal or interest payments are 90 days past due, unless the loan is both well secured and in process of collection, or if full collection of interest or principal becomes uncertain, regardless of the time period involved. Covered loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated.

Loans 30 to 89 days delinquent, excluding covered loans, were $35.4 million at December 31, 2010 and $55.7 million at December 31, 2009. Covered loans that are 30 to 89 days delinquent were $99.5 million at December 31, 2010 and $107.7 million at December 31, 2009. Loans 90 days or more past due on accrual status, excluding covered loans, were $2.5 million at December 31, 2010 and $5.7 million at December 31, 2009. Covered loans that were 90 days or more past due on accrual status were $399.0 million at December 31, 2010 and $173.3 million at December 31, 2009.

Nonaccrual loans, excluding covered loans, decreased to $190.9 million at December 31, 2010 from $388.7 million at December 31, 2009, and net charge-offs decreased to $130.3 million, or 1.13 percent of average loans and leases, excluding covered loans, for 2010 compared to $225.9 million, or 1.84 percent, in 2009. Net loan charge-offs for 2008 were $68.5 million, or 0.57 percent of average loans and leases. In accordance with the Company's allowance for loan and lease losses methodology and in response to improvements in the level of nonaccrual loans and net charge-offs, the Company decreased its provision for loan and lease losses by 64 percent to $103.0 million during 2010 compared to $285.0 million in 2009. The allowance for loan and lease losses, excluding covered loans decreased by 11 percent to $257.0 million as of December 31, 2010 compared to $288.5 million as of December 31, 2009. The ratio of the allowance for loan and lease losses as a percentage of total loans and leases, excluding covered loans, was 2.26 percent, 2.38 percent, and 1.80 percent at December 31, 2010, 2009, and 2008, respectively. The ratio of allowance for loan and lease losses as a percentage of total loans and leases, excluding covered loans, decreased by approximately 5 percent from December 31, 2009 to December 31, 2010. The allowance for loan and lease losses as a percentage of nonperforming assets, excluding covered assets, was 103.5 percent, 65.3 percent, and 100.7 percent at December 31, 2010, 2009, and 2008, respectively. The Company believes that its allowance for loan and lease losses continues to be adequate.

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

At December 31, 2010 and 2009, there were no acquired impaired covered loans accounted for under ASC 310-30 that were on nonaccrual basis. Of the population of covered loans that are accounted for outside the scope of ASC 310-30, the Company had $2.6 million of acquired covered loans that were on nonaccrual status as of December 31, 2010.

Table of Contents

The table below summarizes the total activity in non-covered and covered nonaccrual loans for the years ended December 31, 2010 and 2009:

Nonaccrual Loans

(in thousands)	2010	2009
Balance, beginning of the year	$ 388,707	$ 211,142
Loans placed on nonaccrual	186,821	645,224
Charge-offs	(121,112)	(210,619)
Loans returned to accrual status	(14,671)	(19,274)
Repayments (including interest applied to principal)	(189,404)	(172,972)
Transfers to OREO	(56,861)	(64,794)
Balance, end of the year	$ 193,480	$ 388,707

In addition to loans disclosed above as past due or nonaccrual, management has also identified $18.5 million of loans to 29 borrowers as of February 16, 2011, where the ability to comply with the present loan payment terms in the future is questionable. However, the inability of the borrowers to comply with repayment terms was not sufficiently probable to place the loan on nonaccrual status at December 31, 2010, and the identification of these loans is not necessarily indicative of whether the loans will be placed on nonaccrual status. This amount was determined based on analysis of information known to management about the borrowers' financial condition and current economic conditions. At the end of October 2010, management had identified $52.0 million of loans to 33 borrowers where the ability to comply with the loan payment terms in the future was questionable. Management's classification of credits as nonaccrual, restructured or problems does not necessarily indicate that the principal is uncollectible in whole or part.

The additional interest income that would have been recorded from nonaccrual loans, if the loans had not been on nonaccrual status was $17.9 million, $21.6 million, and $7.6 million for the years ended December 31, 2010, 2009, and 2008, respectively. Interest payments received on nonaccrual loans are applied to principal unless there is no doubt as to ultimate full repayment of principal, in which case the interest payments are recognized as interest income. Interest collected on nonaccrual loans and applied to principal was $6.4 million, $5.9 million, and $2.4 million for the years ended December 31, 2010, 2009, and 2008, respectively. Interest income not recognized on nonaccrual loans reduced the net interest margin by 9, 13, and 5 basis points for the years ended December 31, 2010, 2009, and 2008, respectively.

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

Through the current economic cycle, the Company has enhanced its policies and procedures regarding requirements for when and how to assess real estate values. The policies and procedures are risk based. There are several events that would trigger a valuation and an appraisal. A periodic valuation is performed for real estate assets with an increase in the frequency of the valuation when asset quality deteriorates. An appraisal is required when a loan is identified through the established risk analysis process as a substandard or more severely graded asset and it is re-appraised at least annually or more often if the Company believes there has been material deterioration in its value.

Table of Contents

Appraisal are ordered and reviewed by the Appraisal Department, which reports to the Chief Credit Officer. The Company's appraisal program has been developed to fully comply with Title XI of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA) and all Office of the Comptroller of the Currency's (OCC) rules, regulations, standards, and guidelines. In setting these appraisal standards, the regulatory bodies adopted as a minimum standard the provisions of the Uniform Standards of Professional Appraisal Practice (USPAP).

Based on these efforts, the negative trends the Company saw in 2009 began to abate in 2010. The Company has reappraised the portfolios that are under stress and adjusted the allowance for loan and lease losses accordingly. While there could be further value deterioration, the Company believes that it will be less than experienced in 2009 and 2010. Management expects asset quality to continue to improve and annual credits costs on its non-covered loans to move lower than the $103 million recorded in 2010.

Other Real Estate Owned

The following table provides a summary of OREO activity for 2010 and 2009:

(in thousands)	2010 Non-Covered OREO	2010 Covered OREO	2010 Total	2009 Non-Covered OREO	2009 Covered OREO	2009 Total
Balance, beginning of year	$ 53,308	$ 60,558	$ 113,866	$ 11,388	$	$ 11,388
Additions	59,382	124,737	184,119	66,003	62,451	128,454
Sales	(34,645)	(39,437)	(74,082)	(10,663)	(1,222)	(11,885)
Valuation adjustments	(20,728)	(24,992)	(45,720)	(13,420)	(671)	(14,091)
Balance, end of year	$ 57,317	$ 120,866	$ 178,183	$ 53,308	$ 60,558	$ 113,866

OREO was $178.2 million and $113.9 million as of December 31, 2010 and 2009, respectively. The OREO balance for year end 2010 includes covered OREO of $120.9 million compared with $60.6 million at year end 2009, which represents OREO acquired from the FDIC-assisted acquisitions of ICB, FPB and SWB that is subject to loss sharing agreements. The Company recognized a $7.4 million net gain on the sale of OREO in 2010, compared to a $1.3 million net gain in 2009. Net gain on the sale of OREO in 2010 included $3.9 million of net gain related to the sale of covered OREO.

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

Table of Contents

Goodwill and Intangibles

The following table summarizes the Company's goodwill and other intangible assets as of December 31, 2010 and 2009:

(in thousands)	December 31, 2009	Additions	Reductions	December 31, 2010
Goodwill	$ 513,391	$ 6,088	$	$ 519,479
Accumulated amortization	(33,409)			(33,409)
Net Goodwill	$ 479,982	$ 6,088	$	$ 486,070
Customer-Relationship Intangibles				
Core deposit intangibles	$ 22,855	$ 3,812	$	$ 26,667
Accumulated amortization	(9,765)	(5,302)		(15,067)
Client advisory contracts	45,476		(570)	44,906
Accumulated amortization	(12,965)	(3,302)	138	(16,129)
Other client service contracts		2,187		2,187
Net intangibles	$ 45,601	$ (2,605)	$ (432)	$ 42,564

In 2010, the Company recorded $6.1 million of goodwill and a $2.2 million customer contract intangible related to its acquisition of an accounting software company, and $2.5 million and $1.3 million of core deposit intangibles related to its acquisitions of FPB and SWB, respectively. Refer to Note 3, *Business Combinations*, for further discussion of acquisitions.

Customer relationship intangibles are amortized over their estimated lives. At December 31, 2010, the estimated aggregate amortization of intangibles for the years 2011 through 2015 is $8.3 million, $6.4 million, $5.8 million, $4.0 million, and $3.2 million, respectively.

Impairment Assessment

Management completed an assessment of goodwill and intangibles for impairment during the fourth quarter of 2010. The goodwill assessment was completed at a reporting unit level. Fair values were determined using methods consistent with current industry practices for valuing similar types of companies. A market multiple of net income was used to value the Bank reporting unit. The fair values of the wealth management affiliates were based on the fair values calculated for the affiliate non-controlling interests. These values were adjusted to determine an implied external fair value for the entire firm excluding any discount for lack of control and marketability. The resulting values for the affiliates were compared to various other market valuation metrics. The sum of the fair values of the reporting units was compared with the Company's market capitalization on a range of dates including year end and subsequent to year end. The excess of fair value over the Company's market capitalization on these dates reflects the value of the synergies and benefits that would arise from maintaining control over the Company. Based upon the analysis performed, the fair values of the reporting units exceeded their carrying value (including goodwill); therefore, management concluded that no impairment of goodwill existed at December 31, 2010. It is possible that a future conclusion could be reached that all or a portion of the Company's goodwill is impaired, in which case a non-cash charge for the amount of such impairment would be recorded in operations. Such a charge, if any, would have no impact on tangible capital and would not affect the Company's "well-capitalized" designation.

The assessment of customer-relationship intangibles for impairment was completed at the individual asset level. The fair value of core deposit intangibles was determined using market-based core deposit premiums from recent deposit sale transactions. The fair value of core deposit intangibles exceeded their carrying amount at December 31, 2010. For client advisory contract intangibles recorded

Table of Contents

by the wealth management affiliates, the undiscounted projected future cash flows associated with the client contracts was compared to their carrying value to determine whether there was impairment. Management concluded that no impairment of customer-relationship intangibles existed at December 31, 2010.

Other Assets

Other assets include the following:

(in thousands)	December 31, 2010	December 31, 2009
Accrued interest receivable	$ 60,492	$ 74,929
Other accrued income	12,943	12,070
Deferred compensation fund assets	49,902	44,564
Stock in government agencies	120,660	123,217
Private equity and alternative investments	37,454	37,416
Mark-to-market on derivatives	46,712	52,309
Income tax receivable	71,130	69,935
Prepaid FDIC assessment	59,818	85,127
FDIC receivable	60,018	27,542
Other	86,412	85,673
Total other assets	$ 605,541	$ 612,782

Deposits

Deposits totaled $18.18 billion as of December 31, 2010, an increase of 5 percent from $17.38 billion as of December 31, 2009. Average deposits were $17.87 billion in 2010, an increase of 25 percent from $14.35 billion in 2009. The increase in deposits was partly attributable to the Company's FDIC-assisted acquisitions. Core deposits, which include noninterest-bearing deposits and interest-bearing deposits excluding time deposits of $100,000 and over, provide a stable source of low cost funding. Average core deposits was $16.76 billion and $13.05 billion in 2010 and 2009, respectively, and represented 94 percent and 91 percent of total average deposits for the same periods. Average non-interest bearing deposits for 2010 increased 17 percent from 2009.

Certificates of deposit of $100,000 or more totaled $0.88 billion at December 31, 2010, of which $352.5 million mature within three months, $404.9 million mature within four months to one year and $125.2 million mature beyond one year.

At December 31, 2010 and 2009, the aggregate amount of deposits by foreign depositors in domestic offices totaled $152.3 million and $487.6 million, respectively. Brokered deposits were $10.1 million and $20.2 million at December 31, 2010 and 2009, respectively.

Treasury Services deposit balances, which consists primarily of title, escrow, community association and property management deposits, averaged $1.39 billion in 2010, up 47 percent from $0.94 billion in 2009 due to the addition of new clients and an increase in residential real estate refinance activity.

Borrowed Funds

Total borrowed funds as of December 31, 2010 was $858.4 million, compared to $1.44 billion as of December 31, 2009. Total average borrowed funds was $1.01 billion and $0.96 billion in 2010 and 2009, respectively. The average balance of short-term borrowings decreased to $164.0 million for 2010 from $467.2 million for 2009. Short-term borrowings include federal funds purchased, securities sold under repurchase agreements, treasury tax and loan notes and FHLB borrowings. Increased deposit growth in 2009 and 2010 contributed to the reduction in the Company's short-term borrowings.

In 2010, the Company extinguished $175.0 million of structured repurchase agreements prior to maturity. As a result of the early retirement of debt, the Company recognized a $12.3 million termination cost which is recognized as a reduction of other income in the consolidated statements of income.

The average balance of other borrowings was $845.8 million for 2010 compared with $490.0 million for 2009. Other borrowings include ten-year subordinated notes issued by the Bank and Corporation, senior notes issued by the Corporation and trust preferred securities that were issued in 2009 and redeemed in 2010.

In December 2009, City National Capital Trust I, a statutory trust formed by City National Corporation, issued $250.0 million of cumulative trust preferred securities. The notes paid a fixed rate of 9.625 percent and mature on February 1, 2040. On September 13, 2010, the Corporation issued $300 million of senior notes that pay a fixed rate of 5.25 percent and mature on September 15, 2020. The majority of net proceeds from the senior notes was used to redeem the $250.0 million of trust preferred securities in October 2010. The redemption resulted in a $6.8 million charge that is recognized as a reduction of other income in the consolidated statements of income.

In July 2009, the Bank issued a $50.0 million unsecured subordinated note to a third party investor. The subordinated note bears a 9 percent fixed rate of interest for five years, 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. The note matures on July 15, 2019. In August 2009, the Bank issued an additional $130.0 million in subordinated notes of which $55.0 million were floating rate subordinated notes and $75.0 million were fixed rate subordinated notes. The fixed rate subordinated notes bear a fixed interest rate of 9 percent. The floating rate subordinated notes bear a fixed interest rate of 9 percent for the initial five years from the date of issuance 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. These subordinated notes mature on August 12, 2019. The subordinated notes qualify as Tier 2 capital for regulatory purposes.

The remainder of the Company's other borrowings have maturity dates ranging from September 2011 to November 2034. Further information on borrowed funds is provided in Note 11 of the Consolidated Financial Statements.

Off-Balance Sheet

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

Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, letters of credit, and financial guarantees written is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily

Table of Contents

represent future cash requirements. The Company evaluates each client's creditworthiness on a case-by-case basis.

The Company had off-balance sheet loan commitments aggregating $4.52 billion at December 31, 2010, a decrease from $4.68 billion at December 31, 2009. Substantially all of the Company's loan commitments are on a variable-rate basis and are comprised primarily of real estate and commercial loan commitments. In addition, the Company had $603.8 million outstanding in bankers' acceptances and letters of credit of which $588.9 million relate to standby letters of credit at December 31, 2010. At December 31, 2009, bankers' acceptances and letters of credit were $578.1 million of which $567.3 million related to standby letters of credit.

As of December 31, 2010, the Company had private equity fund, alternative investment commitments and other commitments of $65.9 million, of which $52.3 million was funded. As of December 31, 2009, the Company had private equity fund, alternative investment commitments and other commitments of $68.4 million, of which $51.3 million was funded.

In connection with the liquidation of an investment acquired in a previous bank merger, the Company has an outstanding long-term indemnity. The maximum liability under the indemnity is $23.0 million, but the Company does not expect to make any payments of more than nominal amounts under the terms of this indemnity.

In addition to the commitments described above, the Company enters into other contractual obligations in the ordinary course of business. Certain of these obligations, such as time deposits and long-term debt, are recorded as liabilities in the consolidated financial statements. Other items, such as operating leases and agreements to purchase goods or services are only required to be disclosed. The following table summarizes the Company's contractual obligations at December 31, 2010, and provides the expected cash payments (not including interest) to be made in future periods to settle these obligations. Expected cash payments associated with time deposits and long-term debt are based on deposit maturity and principal payment dates, respectively. Additional details regarding these obligations are provided in the footnotes to the financial statements as referenced in the table.

Contractual Obligations

		Minimum Contractual Payments by Period			
(in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Time deposits (Note 11)	$ 1,220,632	$ 1,062,614	$ 118,211	$ 38,366	$ 1,441
Subordinated and long-term debt (Note 11)	841,072	147,750	208,167		485,155
Operating leases (Note 9)	260,846	36,259	67,782	61,225	95,580
Purchases of affiliate interests (Note 21)	15,857	978	6,106	2,896	5,877
Purchase obligations[1]	104,271	22,329	35,269	29,020	17,653
Contingent tax reserves (Note 17)	4,164		4,164		
Total contractual obligations	$ 2,446,842	$ 1,269,930	$ 439,699	$ 131,507	$ 605,706

(1) Represents agreements to purchase data processing and software services.

Fair Value Measurements

Management employs market standard valuation techniques in determining the fair value of assets and liabilities. Inputs used in valuation techniques are based on assumptions that market participants would use in pricing an asset or liability. The Company utilizes quoted market prices to measure fair value to the extent available (Level 1). If market prices are not available, fair value measurements are based on models that use primarily market-based assumptions including interest rate yield curves, 104

Table of Contents

anticipated prepayment rates, default rates and foreign currency rates (Level 2). In certain circumstances, market observable inputs for model-based valuation techniques may not be available and the Company is required to make judgments about assumptions that market participants would use in estimating the fair value of a financial instrument (Level 3). Refer to Note 4, *Fair Value Measurements*, to the Consolidated Financial Statements for additional information on fair value measurements.

At December 31, 2010, $6.02 billion, or approximately 28 percent, of the Company's total assets were recorded at fair value on a recurring basis. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than 1 percent of total assets were measured using Level 3 inputs. At December 31, 2010, $26.6 million of the Company's total liabilities were recorded at fair value on a recurring basis using Level 1 or Level 2 inputs.

At December 31, 2010, $245.8 million, or approximately 1 percent of the Company's total assets, were recorded at fair value on a nonrecurring basis. These assets were measured using Level 2 and Level 3 inputs. No liabilities were measured at fair value on a nonrecurring basis at December 31, 2010.

Capital

Total period-end equity to period-end assets was 9.29 percent and 9.55 percent as of December 31, 2010 and 2009, respectively. Common shareholders' equity to period-end assets was 9.18 percent and 8.49 percent as of December 31, 2010 and 2009, respectively.

At December 31, 2010, the Corporation's and the Bank's Tier 1 capital, which is comprised of shareholders' equity as modified by certain regulatory adjustments, amounted to $1.44 billion and $1.75 billion, respectively. At December 31, 2009, the Corporation's and the Bank's Tier 1 capital amounted to $1.76 billion and $1.60 billion, respectively. The decrease in the Corporation's Tier 1 capital compared with the prior year-end is due primarily to the redemption of trust preferred securities and the repurchase of remaining TARP preferred shares in 2010.

The following table presents the regulatory standards for well capitalized institutions and the capital ratios for the Corporation and the Bank at December 31, 2010 and 2009:

	Well-Capitalized Standards	December 31, 2010	December 31, 2009
City National Corporation			
Tier 1 leverage	N/A%	6.74%	9.48%
Tier 1 risk-based capital	6.00	10.52	12.20
Total risk-based capital	10.00	13.28	15.15
Tangible common shareholders equity to tangible assets(1)	N/A	6.87	6.15
Tier 1 common shareholders' equity to risk-based assets(2)	N/A	10.29	8.91
City National Bank			
Tier 1 leverage	5.00%	8.28%	8.72%
Tier 1 risk-based capital	6.00	12.91	11.23
Total risk-based capital	10.00	15.50	13.96

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

Table of Contents

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

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

(in thousands)	**December 31, 2010**	**December 31, 2009**
Common shareholders' equity	$ 1,959,579	$ 1,790,275
Less: Goodwill and other intangible assets	(528,634)	(525,583)
Tangible common shareholders' equity (A)	$ 1,430,945	$ 1,264,692
Total assets	$ 21,353,118	$ 21,078,757
Less: Goodwill and other intangible assets	(528,634)	(525,583)
Tangible assets (B)	$ 20,824,484	$ 20,553,174
Tangible common shareholders' equity to tangible assets (A)/(B)	6.87%	6.15%
Tier 1 capital	1,441,837	1,760,136
Less: Preferred stock		(196,048)
Less: Noncontrolling interest	(25,139)	(26,339)
Less: Trust preferred securities	(5,155)	(252,036)
Tier 1 common shareholders' equity (C)	$ 1,411,543	$ 1,285,713
Risk-weighted assets (D)	$ 13,712,097	$ 14,430,857
Tier 1 common shareholders' equity to risk-based assets (C)/(D)	10.29%	8.91%

For further discussion of the Company's capital transactions for 2010 and 2009, refer to "Capital Activity" on page 41.

Table of Contents

QUARTERLY RESULTS

The following table summarizes quarterly operating results for 2010 and 2009:

2010 Quarterly Operating Results (Unaudited)

	Quarter ended				
(in thousands)	**March 31**	**June 30**	**September 30**	**December 31**	**Total**
Interest income	$ 202,066	$ 207,803	$ 214,061	$ 206,266	$ 830,196
Interest expense	26,561	25,805	26,345	21,160	99,871
Net interest income	175,505	181,998	187,716	185,106	730,325
Provision for credit losses on loans and leases, excluding covered loans	55,000	32,000	13,000	3,000	103,000
Provision for losses on covered loans		46,516	8,233	21,469	76,218
Net interest income after provision for credit losses	120,505	103,482	166,483	160,637	551,107
Noninterest income	75,742	122,787	66,499	97,985	363,013
Impairment loss on securities	(1,003)	(506)	(152)	(370)	(2,031)
Gain (loss) on sale of securities	2,134	355	451	(2,547)	393
Noninterest expense	175,934	186,687	184,681	204,028	751,330
Income before taxes	21,444	39,431	48,600	51,677	161,152
Income taxes	4,418	(2,859)	13,461	11,035	26,055
Net income	$ 17,026	$ 42,290	$ 35,139	$ 40,642	$ 135,097
Less: Net income attributable to noncontrolling interest	1,328	972	721	899	3,920
Net income attributable to City National Corporation	$ 15,698	$ 41,318	$ 34,418	$ 39,743	$ 131,177
Less: Dividends and accretion on preferred stock	5,702				5,702
Net income available to common shareholders	$ 9,996	$ 41,318	$ 34,418	$ 39,743	$ 125,475
Net income per common share, basic	$ 0.19	$ 0.78	$ 0.65	$ 0.75	$ 2.38
Net income per common share, diluted	$ 0.19	$ 0.78	$ 0.65	$ 0.74	$ 2.36

2009 Quarterly Operating Results (Unaudited)

	Quarter ended				
(in thousands)	**March 31**	**June 30**	**September 30**	**December 31**	**Total**
Interest income	$ 169,491	$ 175,876	$ 180,419	$ 183,291	$ 709,077
Interest expense	24,594	20,300	19,078	21,052	85,024
Net interest income	144,897	155,576	161,341	162,239	624,053
Provision for credit losses on loans and leases, excluding covered loans	50,000	70,000	85,000	80,000	285,000
Net interest income after provision for credit losses	94,897	85,576	76,341	82,239	339,053
Noninterest income	62,262	62,513	66,178	103,403	294,356
Impairment loss on securities	(12,036)	(1,537)	(778)	(2,094)	(16,445)
Gain (loss) on sale of securities	(2,931)	3,281	3,445	10,491	14,286
Noninterest expense	132,985	144,134	143,765	160,203	581,087
Income before taxes	9,207	5,699	1,421	33,836	50,163

Income taxes	1,632	(986)	(6,966)	4,434	(1,886)
Net income	$ 7,575	$ 6,685	$ 8,387	$ 29,402	$ 52,049
Less: Net income (loss) attributable to noncontrolling interest	115	(88)	348	335	710
Net income attributable to City National Corporation	$ 7,460	$ 6,773	$ 8,039	$ 29,067	$ 51,339
Less: Dividends and accretion on preferred stock	5,501	5,501	5,502	9,399	25,903
Net income available to common shareholders	$ 1,959	$ 1,272	$ 2,537	$ 19,668	$ 25,436
Net income per common share, basic	$ 0.04	$ 0.02	$ 0.05	$ 0.38	$ 0.50
Net income per common share, diluted	$ 0.04	$ 0.02	$ 0.05	$ 0.38	$ 0.50

Table of Contents

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed by, or under the supervision of the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, using the criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control Integrated Framework*. Based on this assessment, management believes that, as of December 31, 2010, the Company's internal control over financial reporting is effective.

KPMG LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K for the year ended December 31, 2010, has issued an audit report on the effectiveness of the Company's internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board. That report appears on page A-2.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of City National Corporation:

We have audited City National Corporation's (the Corporation) internal control over financial reporting as of December 31, 2010, based on criteria established in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, City National Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of City National Corporation and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 28, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California
February 28, 2011

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of City National Corporation:

We have audited the accompanying consolidated balance sheets of City National Corporation and subsidiaries (the Corporation) as of December 31, 2010 and 2009 and the related consolidated statements of income, changes in equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of City National Corporation and subsidiaries as of December 31, 2010 and 2009 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2011 expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
February 28, 2011

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	December 31, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 126,882	$ 364,483
Due from banks interest-bearing	142,807	443,443
Federal funds sold	165,000	5,000
Securities available-for-sale cost $5,658,120 and $4,319,420 at December 31, 2010 and December 31, 2009, respectively:		
Securities pledged as collateral		226,985
Held in portfolio	5,720,675	4,079,773
Trading securities	255,397	154,302
Loans and leases, excluding covered loans	11,386,628	12,146,908
Less: Allowance for loan and lease losses	257,007	288,493
Loans and leases, excluding covered loans, net	11,129,621	11,858,415
Covered loans, net of allowance for loan losses	1,790,133	1,851,821
Net loans and leases	12,919,754	13,710,236
Premises and equipment, net	128,426	124,309
Deferred tax asset	105,398	164,038
Goodwill	486,070	479,982
Customer-relationship intangibles, net	42,564	45,601
Bank-owned life insurance	79,570	76,834
Affordable housing investments	99,670	93,429
Customers' acceptance liability	1,715	2,951
Other real estate owned ($120,866 and $60,558 covered by FDIC loss share at December 31, 2010 and December 31, 2009, respectively)	178,183	113,866
FDIC indemnification asset	295,466	380,743
Other assets	605,541	612,782
Total assets	$ 21,353,118	$ 21,078,757
Liabilities		
Demand deposits	$ 8,457,178	$ 7,753,936
Interest checking deposits	1,863,004	2,278,586
Money market deposits	6,344,749	4,546,532
Savings deposits	291,299	393,177
Time deposits-under $100,000	338,112	756,616
Time deposits-$100,000 and over	882,520	1,650,601
Total deposits	18,176,862	17,379,448
Federal funds purchased and securities sold under repurchase agreements		626,779
Other short-term borrowings	620	690
Current portion of subordinated debt	152,824	
Subordinated debt	179,401	340,137
Long-term debt	525,570	471,029
Reserve for off-balance sheet credit commitments	21,529	17,340
Acceptances outstanding	1,715	2,951
Other liabilities	264,203	176,238
Total liabilities	19,322,724	19,014,612

Redeemable noncontrolling interest	45,676	51,381
Commitments and contingencies		
Equity		
Preferred stock; 5,000,000 shares authorized; 200,000 shares issued and aggregate liquidation preference of $200,000 as of December 31, 2009		196,048
Common stock, par value $1.00 per share; 75,000,000 shares authorized; 53,885,886 shares issued at December 31, 2010 and December 31, 2009	53,886	53,886
Additional paid-in capital	487,868	513,550
Accumulated other comprehensive income (loss)	36,853	(3,049)
Retained earnings	1,482,037	1,377,639
Treasury shares, at cost 1,639,203 and 2,349,430 shares at December 31, 2010 and December 31, 2009, respectively	(101,065)	(151,751)
Total common shareholders' equity	1,959,579	1,790,275
Total shareholders' equity	1,959,579	1,986,323
Noncontrolling interest	25,139	26,441
Total equity	1,984,718	2,012,764
Total liabilities and equity	$ 21,353,118	$ 21,078,757

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)	For the year ended December 31, 2010	2009	2008
Interest Income			
Loans and leases	$ 690,912	$ 582,755	$ 676,421
Securities available-for-sale	136,691	123,743	104,356
Trading securities	69	829	1,854
Due from banks interest-bearing	1,890	1,486	1,896
Federal funds sold and securities purchased under resale agreements	634	264	161
Total interest income	830,196	709,077	784,688
Interest Expense			
Deposits	49,030	60,429	122,990
Federal funds purchased and securities sold under repurchase agreements	5,292	8,292	27,592
Subordinated debt	18,628	9,940	6,916
Other long-term debt	26,912	6,032	9,295
Other short-term borrowings	9	331	17,999
Total interest expense	99,871	85,024	184,792
Net interest income	730,325	624,053	599,896
Provision for credit losses on loans and leases, excluding covered loans	103,000	285,000	127,000
Provision for losses on covered loans	76,218		
Net interest income after provision	551,107	339,053	472,896
Noninterest Income			
Trust and investment fees	134,727	117,062	132,214
Brokerage and mutual fund fees	23,742	27,932	73,446
Cash management and deposit transaction charges	47,593	51,669	48,307
International services	31,297	31,007	32,449
Bank-owned life insurance	2,736	3,053	2,752
FDIC loss sharing income, net	63,335	723	
Gain (loss) on disposal of assets	2,837	1,276	(353)
Gain (loss) on sale of securities	393	14,286	(1,511)
Gain on acquisition	27,339	38,206	
Other	29,407	23,428	28,960
Impairment loss on securities:			
Total other-than-temporary impairment loss on securities	(9,513)	(33,613)	(49,280)
Less: Portion of loss recognized in other comprehensive income	7,482	17,168	
Net impairment loss recognized in earnings	(2,031)	(16,445)	(49,280)
Total noninterest income	361,375	292,197	266,984
Noninterest Expense			
Salaries and employee benefits	409,823	320,276	354,513
Net occupancy of premises	55,567	50,423	49,514
Legal and professional fees	47,641	37,010	35,344
Information services	30,824	27,835	26,969
Depreciation and amortization	25,845	26,219	22,201

Marketing and advertising	23,112	20,126	22,897
Office services and equipment	16,381	14,995	15,548
Amortization of intangibles	9,036	7,357	17,738
Other real estate owned	63,111	8,925	569
FDIC assessments	29,055	28,053	6,242
Other operating	40,935	39,868	36,228
Total noninterest expense	751,330	581,087	587,763
Income before income taxes	161,152	50,163	152,117
Income taxes	26,055	(1,886)	41,783
Net income	$ 135,097	$ 52,049	$ 110,334
Less: Net income attributable to noncontrolling interest	3,920	710	5,378
Net income attributable to City National Corporation	$ 131,177	$ 51,339	$ 104,956
Less: Dividends and accretion on preferred stock	5,702	25,903	2,445
Net income available to common shareholders	$ 125,475	$ 25,436	$ 102,511
Net income per share, basic	$ 2.38	$ 0.50	$ 2.12
Net income per share, diluted	$ 2.36	$ 0.50	$ 2.11
Shares used to compute net income per share, basic	51,992	50,272	47,930
Shares used to compute net income per share, diluted	52,455	50,421	48,196
Dividends per share	$ 0.40	$ 0.55	$ 1.92

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	For the year ended December 31, 2010	2009	2008
Cash Flows From Operating Activities			
Net income	$ 135,097	$ 52,049	$ 110,334
Adjustments to net income:			
Provision for credit losses on loans and leases, excluding covered loans	103,000	285,000	127,000
Provision for losses on covered loans	76,218		
Amortization of intangibles	9,036	7,357	17,738
Depreciation and amortization	25,845	26,219	22,201
Share-based employee compensation expense	16,734	14,409	14,956
Deferred income taxes (benefit)	30,099	(4,283)	(78,107)
(Gain) loss on disposal of assets	(2,837)	(1,276)	353
(Gain) loss on sale of securities	(393)	(14,286)	1,511
Gain on acquisition	(27,339)	(38,206)	
Impairment loss on securities	2,031	16,445	49,280
Other, net	(40,379)	14,650	(8,889)
Net change in:			
Trading securities	(101,095)	147,696	(2,243)
Other assets and other liabilities, net	353,992	(229,903)	57,694
Net cash provided by operating activities	580,009	275,871	311,828
Cash Flows From Investing Activities			
Purchase of securities available-for-sale	(4,351,981)	(3,628,275)	(362,651)
Sales of securities available-for-sale	574,532	829,820	103,561
Maturities and paydowns of securities available-for-sale	2,420,577	1,008,438	453,340
Loan originations, net of principal collections	831,857	35,504	(901,208)
Net payments for premises and equipment	(29,906)	(16,174)	(35,428)
Net cash acquired in acquisitions	88,795	453,719	
Other investing activities, net	82,196	(2,085)	(4,006)
Net cash used in investing activities	(383,930)	(1,319,053)	(746,392)
Cash Flows From Financing Activities			
Net increase in deposits	255,915	2,614,128	829,619
Net decrease in federal funds purchased and securities sold under repurchase agreements	(626,779)	(281,378)	(636,254)
Net (decrease) increase in short-term borrowings, net of transfers from long-term debt	(30,609)	(1,179,849)	24,500
Net increase (decrease) in other borrowings	47,397	410,127	(121,910)
Proceeds from exercise of stock options	23,764	2,236	20,480
Tax benefit from exercise of stock options	3,958	237	2,905
Stock repurchases			(21,694)
(Redemption) issuance of preferred stock	(200,000)	(200,000)	389,867
Issuance of common stock		119,929	
(Repurchase) issuance of common stock warrant	(18,500)		10,133
Cash dividends paid	(24,012)	(48,338)	(92,886)
Other financing activities, net	(5,450)	(5,249)	
Net cash (used in) provided by financing activities	(574,316)	1,431,843	404,760
Net (decrease) increase in cash and cash equivalents	(378,237)	388,661	(29,804)
Cash and cash equivalents at beginning of year	812,926	424,265	454,069
Cash and cash equivalents at end of period	$ 434,689	$ 812,926	$ 424,265
Supplemental Disclosures of Cash Flow Information:			

Cash paid during the period for:						
Interest	$	96,213	$	83,820	$	189,501
Income taxes		7,195		17,838		109,197
Non-cash investing activities:						
Transfer of loans to other real estate owned	$	168,958	$	69,683	$	23,999
Transfer from securities available-for-sale to trading securities				6,400		
Assets acquired (liabilities assumed) in acquisitions:						
Securities available-for-sale	$	17,183	$	314,432	$	
Covered loans		330,566		1,862,515		
Loans				8,420		
Covered other real estate owned		15,161		58,761		
Deposits		(541,499)		(2,113,195)		
Other borrowings		(30,539)		(1,056,039)		

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
AND COMPREHENSIVE INCOME

	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, December 31, 2007	50,824,178	$	$ 50,824	$ 374,700	$ (9,349)	$ 1,369,999	$ (176,035)	$ 25,583	$ 1,635,722
Net income (1)						104,956		2,385	107,341
Other comprehensive income, net of tax									
Amortization of prior service cost					52				52
Minimum pension liability adjustment					(347)				(347)
Net unrealized loss on securities available-for-sale net of tax benefits of $30.1 million and reclassification of $0.5 million net gain included in net income					(41,920)				(41,920)
Net unrealized gain on cash flow hedges net of taxes of $2.5 million and reclassification of $3.2 million net gain included in net income					3,542				3,542
Total comprehensive income								2,385	68,668
Dividends and distributions to noncontrolling interest								(2,527)	(2,527)
Issuance of shares under share-based compensation plans	137,279		137	(20,650)			40,993		20,480
Issuance of preferred stock		389,867							389,867
Issuance of common stock warrant				10,133					10,133
Preferred stock accretion		222				(222)			
Share-based employee compensation expense				14,755					14,755
Tax benefit from share-based compensation plans				2,905					2,905
Cash dividends:									
Preferred						(2,223)			(2,223)
Common						(92,886)			(92,886)
Repurchased shares, net							(21,694)		(21,694)
Net change in deferred compensation plans				787					787
Change in redeemable noncontrolling interest				6,447					6,447
Balance, December 31, 2008	50,961,457	390,089	50,961	389,077	(48,022)	1,379,624	(156,736)	25,441	2,030,434
Net income (1)						51,339		2,167	53,506
Other comprehensive income, net of tax									
Amortization of prior service cost					136				136
Non-credit related impairment loss on investment securities, net of taxes of $7.2 million					(9,987)				(9,987)
Net unrealized gain on securities available-for-sale, net of taxes of $41.3 million and reclassification of $0.7 million net loss included in net income					57,482				57,482
Net unrealized loss on cash flow hedges, net of tax benefits of $1.7 million and reclassification of $7.0 million net gain included in net income					(2,658)				(2,658)
Total comprehensive income								2,167	98,479
Dividends and distributions to noncontrolling interest								(2,258)	(2,258)
Issuance of common stock	3,220,000		3,220	116,409					119,629
Issuance of shares under share-based compensation plans	(295,571)		(295)	(3,289)			4,985		1,401

Preferred stock accretion		5,959				(5,959)			
Redemption of preferred stock		(200,000)							(200,000)
Share-based employee compensation expense				14,293					14,293
Tax expense from share-based compensation plans				(971)					(971)
Cash dividends:									
Preferred						(19,944)			(19,944)
Common						(27,421)			(27,421)
Net change in deferred compensation plans				548					548
Change in redeemable noncontrolling interest				(2,517)					(2,517)
Other								1,091	1,091
Balance, December 31, 2009	53,885,886	196,048	53,886	513,550	(3,049)	1,377,639	(151,751)	26,441	2,012,764
Net income (1)						131,177		2,141	133,318
Other comprehensive income, net of tax:									
Amortization of prior service cost					(663)				(663)
Non-credit related impairment loss on investment securities, net of taxes of $3.1 million					(4,352)				(4,352)
Net unrealized gain on securities available-for-sale, net of taxes of $34.6 million and reclassification of $5.2 million net loss included in net income					48,104				48,104
Net unrealized loss on cash flow hedges, net of tax benefits of $3.1 million and reclassification of $5.0 million net gain included in net income					(3,187)				(3,187)
Total comprehensive income								2,141	173,220
Dividends and distributions to noncontrolling interest								(2,141)	(2,141)
Issuance of shares under share-based compensation plans				(28,254)			50,588		22,334
Preferred stock accretion		3,952				(3,952)			
Redemption of preferred stock		(200,000)							(200,000)
Repurchase of common stock warrant				(18,500)					(18,500)
Share-based employee compensation expense				16,635					16,635
Tax benefit from share-based compensation plans				3,179					3,179
Cash dividends:									
Preferred						(1,750)			(1,750)
Common						(21,077)			(21,077)
Net change in deferred compensation plans				400			98		498
Change in redeemable noncontrolling interest				1,408					1,408
Other				(550)				(1,302)	(1,852)
Balance, December 31, 2010	53,885,886	$	$ 53,886	$ 487,868	$ 36,853	$ 1,482,037	$ (101,065)	$ 25,139	$ 1,984,718

(1) Net income excludes net income (loss) attributable to redeemable noncontrolling interest of $1,779, ($1,457) and $2,993 during 2010, 2009 and 2008, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section in the consolidated balance sheets. See Note 21 of the Notes to Consolidated Financial Statements.

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 76 offices in Southern California, the San Francisco Bay area, Nevada and New York City. As of December 31, 2010, the Corporation had seven consolidated investment advisory affiliates and a noncontrolling interest in two other firms. The Corporation also had two unconsolidated subsidiaries, Business Bancorp Capital Trust I and City National Capital Trust I, as of December 31, 2010. Because the Bank comprises substantially all of the business of the Corporation, references to the "Company" mean the Corporation and the Bank together. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

Consolidation

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

The Company's investment management and wealth advisory affiliates are organized as limited liability companies. The Corporation generally owns a majority position in each affiliate and certain management members of each affiliate own the remaining shares. The Corporation has contractual arrangements with its affiliates whereby a percentage of revenue is allocable to fund affiliate operating expenses ("operating share") while the remaining portion of revenue ("distributable revenue") is allocable to the Corporation and the noncontrolling owners. All majority-owned affiliates that meet the prescribed criteria for consolidation are consolidated. In November 2009, the Company deconsolidated one of its affiliates, but retained a noncontrolling interest in that affiliate. The Corporation's interest in two investment management affiliates in which it holds a noncontrolling share is accounted for using the equity method. Additionally, the Company has various interests in variable interest entities ("VIE") that are not required to be consolidated. See Note 20 for a more detailed discussion on variable interest entities.

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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

expenses during the reporting period. Circumstances and events that differ significantly from those underlying the Company's estimates and assumptions could cause actual financial results to differ from those estimates. The material estimates included in the financial statements relate to the allowance for loan and lease losses, the reserve for off-balance sheet credit commitments, valuation of stock options and restricted stock, income taxes, goodwill and intangible asset impairment, securities available-for-sale impairment, private equity and alternative investment impairment, valuation of assets and liabilities acquired in business combinations, subsequent valuation of covered loans, valuation of redeemable 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. The allowance for loan and lease losses reflects management's ongoing assessment of the credit quality of the Company's portfolio, which is affected by a broad range of economic factors. Additional factors affecting the provision include net loan charge-offs, nonaccrual loans, specific reserves, risk-rating migration and changes in the portfolio size and composition. The Company's estimates and assumptions are expected to change as changes in market conditions and the Company's portfolio occur in subsequent periods.

Basis of Presentation

The Company is on the accrual basis of accounting for income and expenses. The results of operations reflect any adjustments, all of which are of a normal recurring nature, unless otherwise disclosed in this Form 10-K, 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.

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

Business Combinations

The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred.

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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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. Inputs used in valuation techniques are prioritized in the fair value hierarchy as follows:

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

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

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

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

The Company records securities available-for-sale, trading securities and derivative contracts at fair value on a recurring basis. Certain other assets such as impaired loans, other real estate owned ("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 evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed.

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value follows.

Securities Fair values for U.S. Treasury securities, marketable equity securities and trading securities, with the exception of agency securities held in the trading account, are based on quoted market prices. Securities with fair values based on quoted market prices are classified in Level 1 of the fair value hierarchy. Level 2 securities include the Company's portfolio of federal agency, mortgage-backed, state and municipal securities for which fair values are calculated with models using quoted prices and other inputs directly or indirectly observable for the asset or liability. Prices for the significant majority of these securities are obtained through a third-party valuation source. Management

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

reviewed the valuation techniques and assumptions used by the provider and determined that the provider utilizes widely accepted valuation techniques based on observable market inputs appropriate for the type of security being measured. Prices for the remaining securities are obtained from dealer quotes. Securities classified in Level 3 include certain collateralized debt obligation instruments for which the market has become inactive. Fair values for these securities were determined using internal models based on assumptions that are not observable in the market.

Loans The Company does not record loans at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans. Loans measured for impairment based on the fair value of collateral or observable market prices are reported at fair value for disclosure purposes. The majority of loans reported at fair value are measured for impairment by valuing the underlying collateral based on third-party appraisals or broker quotes. These loans are classified in Level 2 of the fair value hierarchy. In certain circumstances, appraised values or broker quotes are adjusted based on management's assumptions regarding current market conditions to determine fair value. These loans are classified in Level 3 of the fair value hierarchy.

Derivatives The fair value of non-exchange traded (over-the-counter) derivatives are obtained from third party market sources that use conventional valuation algorithms. The Company provides client data to the third party sources 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 cash collateral, if any. Although the Company has determined that the majority of the inputs used to value derivative contracts fall within Level 2 of the fair value hierarchy, the credit valuation adjustments utilize Level 3 inputs, such as estimates of credit spreads. The Company has determined that the impact of the credit valuation adjustments is not significant to the overall valuation of these derivatives. As a result, the Company has classified the derivative contract valuations in their entirety in Level 2 of the fair value hierarchy.

The fair value of foreign exchange options and transactions are derived from market spot and/or forward foreign exchange rates and are classified in Level 1 of the fair value hierarchy.

Other Real Estate Owned The fair value of OREO is generally based on third-party appraisals performed in accordance with professional appraisal standards and Bank regulatory requirements under the Financial Institutions Reform Recovery and Enforcement Act of 1989. Appraisals are reviewed and approved by the Company's appraisal department. OREO measured at fair value based on third party appraisals or observable market data is classified in Level 2 of the fair value hierarchy. In certain circumstances, fair value may be determined using a combination of inputs including appraised values, broker price opinions and recent market activity. The weighting of each input in the calculation of fair value is based on management's assumptions regarding market conditions. These assumptions cannot be observed in the market. OREO measured at fair value using non-observable inputs is classified in Level 3 of the fair value hierarchy.

Cash and Due From Banks

Cash on hand, cash items in the process of collection, and amounts due from correspondent banks and the Federal Reserve Bank are included in Cash and due from banks on the consolidated balance sheets.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Securities

Securities are classified based on management's intention on the date of purchase. All securities are classified as available-for-sale or trading and are presented at fair value. Unrealized gains or losses on securities available-for-sale are excluded from net income but are included as a separate component of other comprehensive income, net of taxes. Premiums or discounts on securities available-for-sale are amortized or accreted into income using the interest method over the expected lives of the individual securities. The Company performs a quarterly assessment to determine whether a decline in fair value below amortized cost is other than temporary. Amortized cost includes adjustments made to the cost of an investment for accretion, amortization, collection of cash and previous other-than-temporary impairment recognized in earnings. Other-than-temporary impairment exists when it is probable that the Company will be unable to recover the entire amortized cost basis of the security. If the decline in fair value is judged to be other than temporary, the security is written down to fair value which becomes the new cost basis and an impairment loss is recognized.

For debt securities, the classification of other-than-temporary impairment depends on whether the Company intends to sell the security or it more likely than not will be required to sell the security before recovery of its cost basis, and on the nature of the impairment. If the Company intends to sell a security or it is more likely than not it will be required to sell a security prior to recovery of its cost basis, the entire amount of impairment is recognized in earnings. If the Company does not intend to sell the security or it is not more likely than not it will be required to sell the security prior to recovery of its cost basis, the credit loss component of impairment is recognized in earnings and impairment associated with non-credit factors, such as market liquidity, is recognized in other comprehensive income net of tax. A credit loss is the difference between the cost basis of the security and the present value of cash flows expected to be collected, discounted at the security's effective interest rate at the date of acquisition. The cost basis of an other-than-temporarily impaired security is written down by the amount of impairment recognized in earnings. The new cost basis is not adjusted for subsequent recoveries in fair value.

Realized gains or losses on sales of securities available-for-sale are recorded using the specific identification method. Trading securities are valued at fair value with any unrealized gains or losses included in net income.

Loans

Loans are generally carried at principal amounts less net deferred loan fees. Net deferred loan fees include deferred unamortized fees less direct incremental loan origination costs. Net deferred fees are amortized into interest income over the terms of the loans for all loans except residential mortgages. Net deferred fees on residential mortgage loans are amortized over the average expected life of the loans. The amortization is calculated using the effective yield method for all loans except revolving loans, for which the straight-line method is used. Premiums or discounts on loans are amortized or accreted into income using the effective interest method. Interest income is accrued as earned.

Past Due Loans Loans are considered past due following the date when either interest or principal is contractually due and unpaid.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Nonaccrual Loans Loans, with the exception of residential mortgage loans and equity lines of credit, are placed on nonaccrual status when a loan becomes contractually past due 90 days with respect to interest or principal unless the loan is both well secured and in the process of collection, or if full collection of interest or principal becomes uncertain. Residential mortgage loans and equity lines of credit are placed on nonaccrual status at the earlier of 180 days past due with respect to interest or principal or when collection of interest or principal becomes uncertain. When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is reversed and the accretion of net deferred loan fees ceases. Thereafter, interest collected on the loan is accounted for on the cash collection or cost recovery method until qualifying for return to accrual status. Generally, a loan may be returned to accrual status when the delinquent principal and interest are brought current in accordance with the terms of the loan agreement and certain ongoing performance criteria have been met.

Impaired Loans The Company considers a loan to be impaired when it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is determined to be impaired, the impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate, except that if the loan is collateral dependent, the impairment is measured by using the fair value of the loan's collateral. As a final alternative, the observable market price of the debt may be used to assess impairment. Nonperforming loans greater than $500,000 are individually evaluated for impairment based upon the borrower's overall financial condition, resources, and payment record, and the prospects for support from any financially responsible guarantors. Impairment on loans less than $500,000 is measured using historical loss factors, which approximates the discounted cash flows method.

When the measurement of the impaired loan is less than the recorded amount of the loan, an impairment is recognized by creating a valuation allowance with a corresponding charge to the allowance for loan and lease losses or by adjusting an existing valuation allowance for the impaired loan.

Interest payments received on impaired loans are generally applied as follows: (1) to principal if the loan is on nonaccrual principal recapture status, (2) to interest income if the loan is on cash basis nonaccrual and (3) to interest income if the impaired loan has been returned to accrual status. An impaired loan that has been restructured and returned to accrual status continues to be reported as impaired until the loan has a demonstrated period of performance.

Restructured Loans A loan is classified as a troubled debt restructured when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include interest rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. Loans restructured at a rate equal to or greater than that of a new loan with comparable risk at the time the loan is modified may be excluded from restructured loan disclosures in years subsequent to the restructuring if the loans are in compliance with their modified terms. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can meet the restructured terms. However, the borrower's performance prior to the restructuring, or other significant events at the time of restructuring may be considered in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status after a shorter performance period. If the borrower's

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan.

Acquired Impaired Loans Loans acquired for which it is probable that all contractual payments will not be received are accounted for under Accounting Standards Codification ("ASC") Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). These loans are recorded at fair value at the time of acquisition. Fair value of acquired impaired loans is determined using discounted cash flow methodology based on assumptions about the amount and timing of principal and interest payments, principal prepayments and estimates of principal defaults and losses, and current market rates. As estimated credit and market risks are included in the determination of fair value, no allowance for loan losses is established on the acquisition date. The excess of expected cash flows at acquisition over the initial investment in acquired loans ("accretable yield") is recorded as interest income over the life of the loans if the timing and amount of the future cash flows is reasonably estimable. Subsequent to acquisition, the Company aggregates loans into pools of loans with common risk characteristics. The Company updates its cash flow projections for covered loans accounted for under ASC 310-30 on a quarterly basis. Increases in estimated cash flows over those expected at the acquisition date and subsequent measurement periods are recognized as interest income, prospectively. Decreases in expected cash flows after the acquisition date and subsequent measurement periods are recognized by recording a provision for loan losses. 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.

Covered Loans The term covered loans refers to acquired loans that are covered under a loss sharing agreement with the Federal Deposit Insurance Corporation ("FDIC"). Covered loans are reported in the loan section of the consolidated balance sheets.

Unfunded Loan Commitments These commitments are generally related to providing credit facilities to clients of the Bank, and are not actively traded financial instruments. These unfunded commitments are disclosed as off-balance sheet financial instruments in Note 19 in the Notes to Consolidated Financial Statements.

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

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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

process. As conditions change, our level of provisioning and the allowance for loan and lease losses and reserve for off-balance sheet credit commitments may change.

For commercial, non-homogenous loans that are not impaired, the Bank derives loss factors via a process that begins with estimates of probable losses inherent in the portfolio based upon various statistical analyses. The factors included in the analysis include loan type, migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, as well as analyses that reflect current trends and conditions. Each portfolio of smaller balance homogeneous loans including residential first mortgages, installment, revolving credit and most other consumer loans is collectively evaluated for loss potential. Management also establishes a qualitative reserve that considers overall portfolio indicators, including current and historical credit losses; delinquent, nonperforming and criticized loans; trends in volumes and terms of loans; and, an evaluation of overall credit quality and the credit process, including lending policies and procedures, economic, geographical, product, and other environmental factors. Management also considers trends in internally risk-rated exposures, criticized exposures, cash-basis loans, and historical and forecasted write-offs; and, a review of industry, geographic, and portfolio concentrations, including current developments within those segments. In addition, management considers the current business strategy and credit process, including credit-limit setting and compliance, credit approvals, loan underwriting criteria and loan workout procedures.

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

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

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

The allowance for loan and lease losses is increased by the provision for credit losses charged to operating expense and is decreased by the amount of charge-offs, net of recoveries.

Reserve for Off-Balance Sheet Credit Commitments Off-balance sheet credit commitments include commitments to extend credit, letters of credit and financial guarantees. The reserve for off-balance sheet credit commitments is established by converting the off-balance sheet exposures to a loan equivalent amount and then applying the methodology used for loans described above. The reserve for

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

off-balance sheet credit commitments is recorded as a liability in the Company's consolidated balance sheets. Increases and decreases in the reserve for off-balance sheet credit commitments are reflected as an allocation of provision expense from the allowance for loan and lease losses.

Allowance for Loan Losses on Covered Loans The Company updates its cash flow projections for covered loans accounted for under ASC 310-30 on a quarterly basis. Decreases in expected cash flows after the acquisition date and subsequent measurement periods are recognized by recording a provision for loan losses. See *Acquired Impaired Loans* for further discussion.

Other Real Estate Owned

OREO includes real estate acquired in full or partial satisfaction of a loan and is recorded at fair value less estimated costs to sell at the acquisition date. The excess of the carrying amount of a loan over the fair value of real estate acquired (less costs to sell) is charged to the allowance for loan and lease losses. If the fair value of OREO at initial acquisition exceeds the carrying amount of the loan, the excess is recorded either as a recovery to the allowance for loan and lease losses if a charge-off had previously been recorded, or as a gain on initial transfer in noninterest income. The fair value of OREO is generally based on a third party appraisal or, in certain circumstances, may be based on a combination of an appraised value, broker price opinions and recent sales activity. Declines in the fair value of OREO that occur subsequent to acquisition are charged to OREO expense in the period in which they are identified. Expenses for holding costs are charged to OREO expense as incurred.

Covered OREO includes acquired OREO that is covered under a loss sharing agreement with the FDIC. These assets were recorded at their fair value on acquisition date. Covered OREO is reported in Other real estate owned in the consolidated balance sheets.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Leasehold improvements are amortized over the terms of the respective leases. Depreciation is generally computed on a straight-line basis over the estimated useful life of each type of asset. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to Office services and equipment expense in the consolidated statements of income.

Software

Capitalized software is stated at cost, less accumulated amortization. Capitalized software includes purchased software and capitalizable application development costs associated with internally developed software. Amortization is computed on a straight-line basis and charged to expense over the estimated useful life of the software which is generally 5 years. Capitalized software is included in Premises and equipment, net in the consolidated balance sheets.

Goodwill and Intangibles

The Company applies the acquisition method of accounting effective January 1, 2009. Previously, acquisitions were accounted for using the purchase method. Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the assets acquired and liabilities assumed, including contingent consideration, in the transaction at their acquisition date fair values.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Management utilizes valuation techniques based on discounted cash flow analysis to determine these fair values. Any excess of the purchase price over amounts allocated to acquired assets, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Intangible assets include core deposit intangibles and client advisory contract intangibles (combined, customer-relationship intangibles) originating from acquisitions of financial services firms. Core deposit intangibles are amortized over a range of four to eight years and client advisory contract intangibles are amortized over various periods ranging from four to 20 years. At December 31, 2010, the weighted-average amortization period for the contract intangibles is 17.3 years.

Goodwill and customer-relationship intangibles are evaluated for impairment at least annually or more frequently if events or circumstances, such as changes in economic or market conditions, indicate that potential impairment exists. Given the volatility in the current economic environment, goodwill and customer-relationship intangibles are evaluated for impairment on a quarterly basis. Goodwill is tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment for which discrete financial information is available and regularly reviewed by management. Fair values of reporting units are determined using methods consistent with current market practices for valuing similar types of businesses. Valuations are generally based on market multiples of net income or gross revenues combined with an analysis of expected near and long-term financial performance. Management utilizes market information including market comparables and recent merger and acquisition transactions to validate the reasonableness of its valuations. If the fair value of the reporting unit, including goodwill, is determined to be less than the carrying amount of the reporting units, a further test is required to measure the amount of impairment. If an impairment loss exists, the carrying amount of the goodwill is adjusted to a new cost basis. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

Impairment testing of customer-relationship intangibles is performed at the individual asset level. Impairment exists when the carrying amount of an intangible asset is not recoverable and exceeds its fair value. The carrying amount of an intangible asset is not recoverable when the carrying amount of the asset exceeds the sum of undiscounted cash flows (cash inflows less cash outflows) associated with the use and/or disposition of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. The fair value of core deposit intangibles is determined using market-based core deposit premiums from recent deposit sale transactions. The fair value of client advisory contracts is based on discounted expected future cash flows. Management makes certain estimates and assumptions in determining the expected future cash flows from customer-relationship intangibles including account attrition, expected lives, discount rates, interest rates, servicing costs and other factors. Significant changes in these estimates and assumptions could adversely impact the valuation of these intangible assets. If an impairment loss exists, the carrying amount of the intangible asset is adjusted to a new cost basis. The new cost basis is amortized over the remaining useful life of the asset.

Private Equity and Alternative Investments

The Company has ownership interests in 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.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Management reviews these investments quarterly for possible other-than-temporary impairment. This review includes consideration of the facts and circumstances associated with each investment, expectations for future cash flows and capital needs, the viability of the entity's business model and the likelihood that the capital invested will be recovered over the expected timeframe of the investment. 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.

Noncontrolling Interest

The Company has both redeemable and non-redeemable noncontrolling interest. Non-redeemable noncontrolling interest in majority-owned affiliates is reported as a separate component of equity in Noncontrolling interest in 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. These interests are not considered to be permanent equity and are reported in the mezzanine section of the consolidated balance sheets at fair value. Consolidated net income is attributed to controlling and noncontrolling interest in the consolidated statements of income.

Investment Fee Revenue

Investment fee revenue consists of fees, commissions, and markups on securities transactions with clients and money market mutual fund fees.

International Services Income

International services income includes foreign exchange fees, fees on commercial letters of credit and standby letters of credit, foreign collection and other fee income. International services fees are recognized when earned, except for the fees on commercial letters of credit and standby letters of credit which are deferred and recognized into income over the terms of the letters of credit.

Share-based Compensation Plans

The Company measures the cost of employee services received in exchange for an award of equity instruments, such as stock options or restricted stock, based on the fair value of the award on the grant date. This cost is recognized in the consolidated statements of income over the vesting period of the award.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model into which the Company inputs its assumptions. The Company evaluates exercise behavior and values options separately for executive and non-executive employees. The Company uses historical data to predict option exercise and employee termination behavior. Expected volatilities are based on the historical volatility of the Company's stock. The expected term of options granted is derived from actual 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. As a practice, the exercise price of the Company's stock option grants equals the closing market price of the Company's common stock on the date of the grant.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

The Company issues restricted stock awards which vest over a five-year period during which time the holder receives dividends and has full voting rights. Twenty-five percent of the restricted stock awards vest two years from the date of grant, then twenty-five percent vests on each of the next three consecutive grant anniversary dates. Restricted stock is valued at the closing price of the Company's stock on the date of award.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return and also file income tax returns in various state jurisdictions. The provision for income taxes includes current and deferred income tax expense on net income adjusted for permanent and temporary differences such as affordable housing tax credits and interest income on state and municipal securities. Deferred tax assets and liabilities are recognized for the expected future tax consequences of existing temporary differences between the financial reporting and tax reporting basis of assets and liabilities, as well as for operating losses and tax credit carry forwards, using enacted tax laws and rates. On a quarterly basis, management evaluates its deferred tax assets to determine if these tax benefits are expected to be realized in future periods. This determination is based on facts and circumstances, including the Company's current and future tax outlook. To the extent a deferred tax asset is no longer considered "more likely than not" to be realized, a valuation allowance is established.

Accrued income taxes represent the estimated amounts due to or received from the various taxing jurisdictions where the Company has established a business presence. The balance also includes a contingent reserve for potential taxes, interest and penalties related to uncertain tax positions. On a quarterly basis, management evaluates the contingent tax accruals to determine if they are sufficiently reserved based on a probability assessment of potential outcomes. The determination is based on facts and circumstances, including the interpretation of existing law, new judicial or regulatory guidance and the status of tax audits. From time to time, there may be differences in opinion with respect to the tax treatment accorded transactions. If a tax position which was previously recognized on the financial statements is no longer "more likely than not" to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense.

Earnings per Common Share

The Company calculates earnings per common share ("EPS") using the two-class method in accordance with ASC Topic 260, *Earnings per Share*. The two-class method requires the Company to present EPS as if all of the earnings for the period are distributed to common shareholders and any participating securities, regardless of whether any actual dividends or distributions are made. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities. The Company grants restricted shares under a share-based compensation plan that qualify as participating securities. Restricted shares issued under the Company's share-based compensation plan are entitled to dividends at the same rate as common stock.

Basic EPS is computed by dividing distributed and undistributed earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Distributed and undistributed earnings available to common shareholders represent net income reduced by preferred stock dividends and distributed and undistributed earnings available to participating securities. Common shares outstanding include common stock and vested restricted stock awards. Diluted EPS reflects the assumed conversion of all potential dilutive securities.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Derivatives and Hedging

As part of its asset and liability management strategies, the Company uses interest-rate swaps to mitigate interest-rate risk associated with changes to (1) the fair value of certain fixed-rate deposits and borrowings (fair value hedges) and (2) certain cash flows related to future interest payments on variable rate loans (cash flow hedges). Interest-rate swap agreements involve the exchange of fixed and variable rate interest payments between counterparties based upon a notional principal amount and maturity date. The Company evaluates the creditworthiness of counterparties prior to entering into derivative contracts, and has established counterparty risk limits and monitoring procedures to reduce the risk of loss due to nonperformance. The Company recognizes derivatives as assets or liabilities on the consolidated balance sheets at their fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction. The Company's interest-rate risk management contracts qualify for hedge accounting treatment under ASC Topic 815, *Derivatives and Hedging*.

The Company documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction at the time the derivative contract is executed. This includes designating each derivative contract as either (i) a "fair value hedge" which is a hedge of a recognized asset or liability or (ii) a "cash flow hedge" which hedges a forecasted transaction or the variability of the cash flows to be received or paid related to a recognized asset or liability. All derivatives designated as fair value or cash flow hedges are linked to specific hedged items or to groups of specific assets and liabilities on the balance sheet.

Both at inception and at least quarterly thereafter, the Company assesses whether the derivatives used in hedging transactions are highly effective (as defined in the guidance) in offsetting changes in either the fair value or cash flows of the hedged item. Retroactive effectiveness is assessed, as well as the continued expectation that the hedge will remain effective prospectively.

For cash flow hedges, in which derivatives hedge the variability of cash flows (interest payments) on loans that are indexed to U.S. dollar LIBOR or the Bank's prime interest rate, the effectiveness is assessed prospectively at the inception of the hedge, and prospectively and retrospectively at least quarterly thereafter.

Ineffectiveness of the cash flow hedges is measured using the hypothetical derivative method described in Derivatives Implementation Group Issue G7, "*Measuring the Ineffectiveness of a Cash Flow Hedge of Interest Rate Risk under Paragraph 30(b) When the Shortcut Method is not Applied*." For cash flow hedges, the effective portion of the changes in the derivatives' fair value is not included in current earnings but is reported as Accumulated other comprehensive income (loss) ("AOCI"). When the cash flows associated with the hedged item are realized, the gain or loss included in AOCI is recognized on the same line in the consolidated statements of income as the hedged item, i.e., included in Interest income on loans and leases. 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.

For fair value hedges, the Company uses interest-rate swaps to hedge the fair value of certain certificates of deposit, subordinated debt and other long-term debt. The certificates of deposit are single maturity, fixed-rate, non-callable, negotiable certificates of deposit. The certificates cannot be redeemed early except in the case of the holder's death. The interest-rate swaps are executed at the time the deposit transactions are negotiated. Interest-rate swaps are structured so that all key terms of the swaps match those of the underlying deposit or debt transactions, therefore ensuring there is no hedge ineffectiveness at inception. The Company ensures that the interest-rate swaps meet the

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

requirements for utilizing the short cut method in accordance with the accounting guidance and maintains appropriate documentation for each interest-rate swap. On a quarterly basis, fair value hedges are analyzed to ensure that the key terms of the hedged items and hedging instruments remain unchanged, and the hedging counterparties are evaluated to ensure that there are no adverse developments regarding counterparty default, thus ensuring continuous effectiveness. For fair value hedges, the effective portion of the changes in the fair value of derivatives is reflected in current earnings, on the same line in the consolidated statements of income as the related hedged item. For both fair value and cash flow hedges, the periodic accrual of interest receivable or payable on interest rate swaps is recorded as an adjustment to net interest income for the hedged items.

The Company discontinues hedge accounting prospectively when (i) a derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item, (ii) a derivative expires or is sold, terminated or exercised, (iii) a derivative is un-designated as a hedge, because it is unlikely that a forecasted transaction will occur or (iv) the Company determines that designation of a derivative as a hedge is no longer appropriate. If a fair value hedge derivative instrument is terminated or the hedge designation removed, the previous adjustments to the carrying amount of the hedged asset or liability would be subsequently accounted for in the same manner as other components of the carrying amount of that asset or liability. For interest-earning assets and interest-bearing liabilities, such adjustments would be amortized into earnings over the remaining life of the respective asset or liability. If a cash flow derivative instrument is terminated or the hedge designation is removed, related amounts reported in other comprehensive income are reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

The Company also offers various derivative products to clients and enters into derivative transactions in due course. These transactions are not linked to specific Company assets or liabilities in the consolidated balance sheets or to forecasted transactions in a hedge relationship and, therefore, do not qualify for hedge accounting. The contracts are marked-to-market each reporting period with changes in fair value recorded as part of Other noninterest income in the consolidated statements of income. Fair values are determined from verifiable third-party sources that have considerable experience with the derivative markets. 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 Company enters into foreign currency option contracts with clients to assist them in hedging their economic exposures arising out of foreign-currency denominated commercial transactions. Foreign currency options allow the counterparty to purchase or sell a foreign currency at a specified date and price. These option contracts are offset by paired trades with third-party banks. The Company also takes proprietary currency positions within risk limits established by the Company's Asset/Liability Management Committee. Both the realized and unrealized gains and losses on foreign exchange contracts are recorded in Other noninterest income in the consolidated statements of income.

Accounting Pronouncements

During the year ended December 31, 2010, the following accounting pronouncements applicable to the Company were issued or became effective:

In December 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-16, which codifies FASB Statement No. 166, *Accounting for Transfers of Financial Assets* into Codification Topic 860. ASU 2009-16 represents a revision to

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

former FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. ASU 2009-16 expands required disclosures about transfers of financial assets and the risks associated with a transferor's continuing involvement with transferred assets. It also removes the concept of "qualifying special-purpose entity" from U.S. GAAP. The new guidance became effective for the Company on January 1, 2010. Adoption of the new guidance did not have a material effect on the Company's consolidated financial statements.

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

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements (Topic 820), Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"). ASU 2010-06 enhances disclosure requirements under ASC Topic 820, *Fair Value Measurements and Disclosures*, 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 Level 3 activity on a gross basis, became effective for the Company on January 1, 2010. Adoption of the new guidance did not have a material effect on the Company's consolidated financial statements. The expanded disclosure requirements pertaining to Level 3 activity will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

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

In February 2010, the FASB issued ASU 2010-10, *Consolidation (Topic 810), Amendments for Certain Investment Funds* ("ASU 2010-10"). ASU 2010-10 defers the effective date of the consolidation provisions contained in ASU 2009-17 for a reporting entity's interest in an entity:

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

(1) that has attributes of an investment company; or (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. The ASU also clarifies how a related party's interests in an entity should be considered when evaluating the criteria for determining whether a decision maker or service provider fee represents a variable interest. In addition, the ASU clarifies that a quantitative calculation should not be the sole basis for evaluating whether a decision maker's or service provider's fee is a variable interest. The new guidance became effective for the Company on January 1, 2010. Adoption of the new guidance did not have a material effect on the Company's consolidated financial statements.

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

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310) Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20") which requires new and enhanced disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past due financing receivables, allowance for credit losses related to financing receivables, impaired loans, credit quality information and modifications. The ASU requires an entity to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. The disclosures became effective for the Company's consolidated financial statements as of December 31, 2010. Adoption of ASU 2010-20 expanded the content and detail in the Company's disclosures pertaining to credit quality. The disclosures about activity that occurs during a reporting period, with the exception of the disclosures about troubled debt restructurings, are effective for interim and annual reporting periods beginning on or after December 15, 2010.

On January 20, 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* ("ASU 2011-01"). The ASU temporarily delays the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 until the FASB completes its deliberations on what constitutes a troubled debt restructuring. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011.

In December 2010, the FASB issued ASU 2010-28, *Intangibles Goodwill and Other (Topic 350), When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ("ASU 2010-28"). Under the amended guidance, for reporting units with zero

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

or negative carrying amounts, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company does not expect adoption of the new guidance to have a material effect on its consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, *Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations* ("ASU 2010-29"). The new guidance specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU 2010-29 also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The new guidance will be effective for the Company's future acquisitions.

Note 2. Restrictions on Cash and Due from Banks

Bank subsidiaries are required to maintain minimum average reserve balances with the Federal Reserve Bank. The amount of those reserve balances averaged approximately $104.5 million and $71.3 million during the year ended December 31, 2010 and 2009, respectively.

Note 3. Business Combinations

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 $6.1 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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Business Combinations (Continued)

fair value of $304.3 million. The Bank received approximately $29.2 million in cash from the FDIC at acquisition. The acquisition of SWB added three new bank branches in Nevada.

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

In connection with the acquisitions of SWB and FPB, the Bank entered into loss sharing agreements with the FDIC under which the FDIC will reimburse the Bank for 80 percent of eligible losses with respect to covered assets. Covered assets include acquired loans and OREO that are covered under the loss sharing agreement with the FDIC. Under the FPB loss sharing agreement, the Bank has a first loss tranche of $19.8 million that is not reimbursable by the FDIC. The Bank will recognize losses of up to $19.8 million, and all subsequent losses above that threshold will then be subject to FDIC reimbursement of 80 percent. There is no first loss tranche under the SWB loss sharing agreement. The term of the loss share agreements is ten years for single family residential loans and five years for all other loans. The expected reimbursements under the loss sharing agreements were recorded as indemnification assets at their estimated fair value of $104.6 million for SWB and $36.5 million for FPB. The difference between the fair value of the FDIC indemnification asset and the undiscounted cash flow the Bank expects to collect from the FDIC is accreted into noninterest income.

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

The Bank recognized a gain of $24.7 million and $2.6 million on the acquisitions of SWB and FPB, respectively. The gain represents the amount by which the fair value of the assets acquired and consideration received from or paid to the FDIC exceeds the liabilities assumed. The gain is reported in Gain on acquisition in the consolidated statements of income. The Bank recognized approximately $1.7 million of acquisition-related expense. This expense is included in Other noninterest expense in the consolidated statements of income.

The consolidated statement of income for 2010 includes the operating results produced by the acquired assets and assumed liabilities of SWB and FPB from their respective acquisition dates through December 31, 2010, which are not material to total operating results for the year. Due primarily to the Bank acquiring certain assets and liabilities of SWB and FPB which are not material to the Company's consolidated balance sheet, the significant amount of fair value adjustments, and the FDIC loss sharing agreement, the historical results of the acquired banks are not material to the Company's results, therefore, no pro forma information is presented.

Imperial Capital Bank

On December 18, 2009, the Bank acquired the banking operations of Imperial Capital Bank ("ICB") in a purchase and assumption agreement with the FDIC. Excluding the effects of acquisition accounting adjustments, the Bank acquired approximately $3.25 billion in assets and assumed $3.09 billion in liabilities. The Bank acquired most of ICB's assets, including loans and OREO with a fair value of $1.86 billion and $58.8 million, respectively, and assumed deposits of $2.08 billion. The

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Business Combinations (Continued)

Bank received approximately $70.8 million in cash from the FDIC at acquisition date, and recognized a gain on acquisition of $38.2 million in 2009. The acquisition of ICB added three new bank branches in California.

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

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

The consolidated statement of income for 2009 includes the operating results produced by the acquired assets and assumed liabilities of ICB for the period of December 18, 2009 to December 31, 2009 and were not material to total operating results for 2009. Due primarily to the Bank acquiring certain assets and liabilities of ICB which were not material to the Company's consolidated balance sheet, the significant amount of fair value adjustments, and the FDIC loss sharing agreement, the historical results of the acquired bank was not material to the Company's results, therefore, no pro forma information is presented.

San Jose Regional Center

On November 13, 2009, the Company purchased a branch banking office in San Jose, California from another financial institution. Excluding acquisition accounting adjustments, the Company acquired approximately $34.6 million in deposits and $8.6 million in loans. The Company recorded $0.5 million of goodwill and a $0.6 million core deposit intangible in association with its acquisition of the branch.

Lee Munder Capital Group, LLC

On July 21, 2009, the Company acquired an approximate 57 percent majority interest in Lee Munder Capital Group, LLC ("LMCG"), a Boston-based investment firm that manages assets for corporations, pensions, endowments and affluent households. LMCG had approximately $3.36 billion of assets under management at the date of acquisition. LMCG was merged with Independence Investments, a Boston-based institutional asset management firm in which the Company held a majority interest. The combined entity is the Company's primary institutional asset management affiliate, with more than $4 billion of assets under management at acquisition date. It is operated under the Lee Munder Capital Group name and as an affiliate of Convergent Capital Management LLC, the Chicago-based asset management holding company that the Company acquired in 2003.

The Company recorded $36.0 million of goodwill and a $2.8 million client advisory contract intangible in association with its acquisition of LMCG. Although the Company only acquired an interest of approximately 57 percent, ASC Topic 805, *Business Combinations*, requires the Company to account for the acquisition of 100 percent of LMCG. Under ASC 805, the assets acquired, liabilities assumed and remaining noncontrolling interests are recognized at their full acquisition-date fair values. The $36.0 million of goodwill recognized includes the $14.7 million fair value of noncontrolling interest recorded at the acquisition date. The noncontrolling interest was recorded in Redeemable noncontrolling interest in the mezzanine section of the consolidated balance sheets.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements

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

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

(1)

Reported in Other assets in the consolidated balance sheets.

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

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

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

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

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

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

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

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

(4)

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

At December 31, 2010, $6.02 billion, or approximately 28 percent, of the Company's total assets were recorded at fair value on a recurring basis, compared with $4.51 billion, or 21 percent at December 31, 2009. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than 1 percent of total assets were measured using Level 3 inputs. At December 31, 2010, $26.6 million of the Company's total liabilities were recorded at fair value on a recurring basis using Level 1 or Level 2 inputs, compared with $14.6 million at December 31, 2009. At December 31, 2010, $245.8 million, or approximately 1 percent of the Company's total assets, were recorded at fair value on

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

a nonrecurring basis, compared with $293.2 million, or 1 percent at December 31, 2009. These assets were measured using Level 2 and Level 3 inputs. There were no transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy during 2010.

For assets measured at fair value on a nonrecurring basis, the following table presents the total net losses, which include charge-offs, specific reserves, OREO valuation write-downs, OREO valuation write-ups and net losses on sales of OREO, recognized in 2010 and 2009:

	Year ended December 31,	
(in thousands)	**2010**	**2009**
Collateral dependent impaired loans:		
Commercial	$ 7,943	$ 8,609
Commercial real estate mortgages	24,368	17,578
Residential mortgages	2,538	1,826
Real estate construction	6,477	105,527
Equity lines of credit	1,226	583
Collaterial dependent impaired covered loans:		
Commercial	414	
Other real estate owned	36,364	12,240
Private equity investments	1,433	3,677
Total net losses recognized	$ 80,763	$ 150,040

Level 3 assets measured at fair value on a recurring basis consist of collateralized debt obligation senior notes. In 2009, Level 3 assets also included collateralized debt obligation income 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 AOCI in the consolidated balance sheets.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

Activity in Level 3 assets measured at fair value on a recurring basis for 2010 and 2009 is summarized in the following table:

Level 3 Assets Measured on a Recurring Basis

(in thousands)	December 31, 2010 Securities Available-for-Sale	December 31, 2009 Securities Available-for-Sale	Trading Securities	Total Level 3 Assets
Balance, beginning of period	$ 26,779	$ 32,419	$	$ 32,419
Total realized/unrealized gains (losses):				
Included in earnings		(9,282)	(2,447)	(11,729)
Included in other comprehensive income	(4,168)	7,034		7,034
Purchases, sales, issuances and settlements, net	(1,629)	(945)		(945)
Transfers between categories		(2,447)	2,447	
Balance, end of period	$ 20,982	$ 26,779	$	$ 26,779

There were no purchases or sales of Level 3 assets measured on a recurring basis during these periods.

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 December 31, 2010 and December 31, 2009. The disclosure does not include estimated fair value amounts for assets and liabilities which are not defined as financial instruments but which have significant value. These assets and liabilities include the value of customer-relationship intangibles, goodwill, 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.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

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

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

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

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

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

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

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

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

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

Deposits The fair value of demand and interest checking deposits, savings deposits, and certain money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit ("CD") is determined by discounting expected future cash flows using the rates offered by the Bank for deposits of similar type and remaining maturity at the measurement date. This value is compared to the termination value of each CD given the bank's standard early withdrawal penalties. The fair value reported is the higher of the discounted present value of each CD and the termination value after the recovery of prepayment penalties. The Bank reviews pricing for its CD products weekly. This review gives consideration to market pricing for products of similar type and maturity offered by other financial institutions.

Federal funds purchased, Securities sold under repurchase agreements and Other short-term borrowings The carrying amount 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.

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

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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

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

	December 31, 2010		December 31, 2009	
(in millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets:				
Cash and due from banks	$ 126.9	$ 126.9	$ 364.5	$ 364.5
Due from banks interest bearing	142.8	142.8	443.4	443.4
Federal funds sold	165.0	165.0	5.0	5.0
Securities available-for-sale	5,720.7	5,720.7	4,306.8	4,306.8
Trading securities	255.4	255.4	154.3	154.3
Loans and leases, net of allowance	11,129.6	11,428.4	11,858.4	12,006.9
Covered loans, net of allowance	1,790.1	1,764.7	1,851.8	1,851.8
FDIC indemnification asset	295.5	268.0	380.7	378.5
Investment in FHLB and FRB stock	120.7	120.7	123.2	123.2
Derivative contracts	46.7	46.7	52.3	52.3
Financial Liabilities:				
Deposits	$ 18,176.9	$ 18,181.4	$ 17,379.4	$ 17,383.4
Federal funds purchased and securities sold under repurchase agreements			426.8	426.8
Structured securities sold under repurchase agreements			200.0	208.7
Other short-term borrowings	0.6	0.6	0.7	0.7
Subordinated and long-term debt	857.8	864.1	811.2	829.9
Derivative contracts	26.4	26.4	14.6	14.6
Commitments to extend credit	5.5	21.2	2.0	16.2
Commitments to private equity and affordable housing funds	23.3	36.9	14.1	31.1

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities Available-for-Sale

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

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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
December 31, 2009				
U.S. Treasury	$ 73,597	$ 2	$ (2)	$ 73,597
Federal agency Debt	659,716	651	(3,646)	656,721
Federal agency MBS	552,691	6,521	(4,055)	555,157
CMOs Federal agency	2,294,676	23,641	(12,206)	2,306,111
CMOs Non-agency	272,262	304	(31,237)	241,329
State and municipal	368,454	10,915	(730)	378,639
Other	82,163	1,093	(6,750)	76,506
Total debt securities	4,303,559	43,127	(58,626)	4,288,060
Equity securities and mutual funds	15,861	2,837		18,698
Total securities	$ 4,319,420	$ 45,964	$ (58,626)	$ 4,306,758

Proceeds from sales of securities were $574.5 million, $829.8 million and $103.6 million in 2010, 2009 and 2008, respectively. The following table provides the gross realized gains and losses on the sales of securities available-for-sale for 2010, 2009 and 2008:

(in thousands)	For the year ended December 31, 2010	2009	2008
Gross realized gains	$ 6,915	$ 22,696	$ 2,642
Gross realized losses	(6,522)	(8,410)	(4,153)
Net realized gains (losses)	$ 393	$ 14,286	$ (1,511)

The $0.4 million of net realized gains on the sale of securities in 2010 primarily relates to the sale of CMOs, mortgage-backed securities and mutual funds.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities Available-for-Sale (Continued)

Interest income on securities available-for-sale is comprised of: (i) taxable interest income of $123.7 million, $108.2 million and $86.1 million for the years ended December 31, 2010, 2009, and 2008, respectively, (ii) nontaxable interest income of $12.2 million, $14.4 million and $15.1 million for the years ended December 31, 2010, 2009, and 2008, respectively, and (iii) dividend income of $0.8 million, $1.2 million and $3.2 million for the years ended December 31, 2010, 2009, and 2008, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at December 31, 2010, except for mortgage-backed securities which are allocated according to the average life of expected cash flows. Average expected maturities will differ from contractual maturities because mortgage debt issuers may have the right to repay obligations prior to contractual maturity.

Debt Securities Available-for-Sale

(in thousands)	One year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	Total
U.S. Treasury	$ 4,019	$ 10,094	$	$	$ 14,113
Federal agency Debt	495,689	551,001	95,638		1,142,328
Federal agency MBS	49	292,374	199,956	58,967	551,346
CMOs Federal agency	501,626	2,506,534	443,371	45,616	3,497,147
CMOs Non-agency	32,361	49,997	35,937		118,295
State and municipal	36,399	155,974	96,103	54,904	343,380
Other	6,576	9,979	27,075		43,630
Total debt securities	$ 1,076,719	$ 3,575,953	$ 898,080	$ 159,487	$ 5,710,239
Amortized cost	$ 1,069,907	$ 3,509,682	$ 911,567	$ 160,419	$ 5,651,575

Securities available-for-sale totaling $992.9 million were pledged to secure trust funds, public deposits, repurchase agreements, or for other purposes required or permitted by law at December 31, 2010.

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 does not intend to sell the security and it is not 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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities Available-for-Sale (Continued)

which then becomes the new cost basis. The new cost basis is not adjusted for subsequent recoveries in fair value.

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

Securities Deemed to be Other-Than-Temporarily Impaired

Through the impairment assessment process, the Company determined that certain securities were other-than-temporarily impaired at December 31, 2010. The Company recorded impairment losses in earnings on securities available-for-sale of $2.0 million for the year ended December 31, 2010. The $7.5 million non-credit portion of impairment recognized at December 31, 2010 was recorded in AOCI. The Company recorded impairment losses in earnings on securities available-for-sale of $16.4 million and $49.3 million in 2009 and 2008, 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 year ended December 31, 2010	 2009	 2008
Non-agency CMOs	$ 1,738	$ 4,409	$
Collateralized debt obligation income notes		9,282	18,088
Perpetual preferred stock	293	1,124	21,884
Equity securities and mutual funds		1,630	9,308
Total	$ 2,031	$ 16,445	$ 49,280

The following table provides a rollforward of credit-related other-than-temporary impairment recognized in earnings for the years ended December 31, 2010 and 2009. 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.

(in thousands)	For the year ended December 31, 2010	 2009
Balance, beginning of period	$ 17,707	$ 8,083
Subsequent credit-related impairment	1,712	5,215
Initial credit-related impairment	26	4,409
Balance, end of period	$ 19,445	$ 17,707

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities Available-for-Sale (Continued)

Non-agency CMOs

During 2010 and 2009, the Company identified certain non-agency collateralized mortgage obligation securities ("Non-agency CMO") that were considered to be other-than-temporarily impaired because the present value of expected cash flows was less than cost. These securities 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 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 $1.7 million and $4.4 million in 2010 and 2009, respectively. The remaining other-than-temporary impairment for these securities at December 31, 2010 and 2009 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.

Collateralized Debt Obligation Income Notes

Collateralized debt obligation income notes ("Income Notes") are equity interests in a multi-class, cash flow collateralized bond obligation backed by a collection of trust preferred securities issued by financial institutions. The equity interests represent ownership of all residual cash flow from the asset pools after all fees have been paid and debt issues have been serviced. Income Notes are collateralized by debt securities with stated maturities and are classified as Level 3 in the fair value hierarchy. Refer to Note 4, *Fair Value Measurements*, for further discussion of fair value.

In response to unprecedented volatility in the credit markets, the Company reevaluated its investment strategy and risk tolerance with respect to its investments in Income Notes. Based on this reassessment, the Company determined that its intent was to sell these securities when the market recovers rather than hold them for the long term. The change in intent resulted in the Company transferring its holdings of Income Notes from available-for-sale to trading securities on April 1, 2009, at their fair value of $2.4 million. There were no gross gains and gross losses included in earnings from the transfer of these securities. Trading securities are carried at fair value and unrealized holding gains and losses are included in earnings.

The Company recorded a $9.3 million impairment loss in earnings on its investment in Income Notes in the first quarter of 2009 prior to their transfer to trading securities and $18.1 million of impairment losses in 2008.

Perpetual Preferred Stock

The adjusted cost basis of the Company's investment in perpetual preferred stock issued by Freddie Mac ("FRE") and Fannie Mae ("FNM") was $0.3 million at December 31, 2010, compared with a fair value of $0.5 million, indicating that these securities were not impaired at year end. The Company recognized impairment losses on these securities of $0.3 million, $1.1 million and $21.9 million in 2010, 2009 and 2008, respectively, following the action taken by the Federal Housing Finance Agency to place these government-sponsored agencies into conservatorship and eliminating the dividends on their preferred shares. The $0.3 million impairment loss recognized in 2010 followed the

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities Available-for-Sale (Continued)

voluntary delisting of FRE and FNM shares from the NYSE in June 2010. These shares currently trade on the OTC Bulletin Board.

Mutual Funds

The adjusted cost basis of available-for-sale mutual funds was $6.2 million at December 31, 2010, compared with a fair value of $9.9 million, reflecting an unrealized gain of $3.7 million. The Company recognized impairment losses of $1.6 million and $2.2 million on its investments in mutual funds in 2009 and 2008, respectively.

The following table provides 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 December 31, 2010 and 2009. 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**
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
December 31, 2009						
U.S. Treasury	$ 59,995	$ 2	$	$	$ 59,995	$ 2
Federal agency Debt	437,548	3,646			437,548	3,646
Federal agency MBS	285,328	4,055			285,328	4,055
CMOs Federal agency	634,732	12,206			634,732	12,206
CMOs Non-agency	35,192	428	180,699	30,809	215,891	31,237
State and municipal	18,187	340	4,500	390	22,687	730
Other debt securities			36,315	6,750	36,315	6,750

Total securities	$	1,470,982	$	20,677	$	221,514	$	37,949	$	1,692,496	$	58,626

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 consists 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 include 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

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities Available-for-Sale (Continued)

security. The Company does not consider the debt securities in the above table to be other than temporarily impaired at December 31, 2010.

Unrealized losses at December 31, 2010 include $10.6 million related to Federal agency CMOs and $9.7 million related to Non-agency CMOs. The unrealized loss on CMOs is primarily the result of higher market interest rates. Additionally, the unrealized loss on Non-agency CMOs reflects the lack of liquidity in this sector of the market. The Company only holds the most senior tranches of each non-agency issue which provides protection against defaults. Other than the $1.7 million credit loss recognized in 2010 on Non-agency CMOs, the Company expects to receive all contractual principal and interest payments due on its CMO debt securities. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment. The mortgages in these asset pools are relatively large and have been made to borrowers with strong credit history and significant equity invested in their homes. They are well diversified geographically. Nonetheless, significant further weakening of economic fundamentals coupled with significant increases in unemployment and substantial deterioration in the value of high-end residential properties could extend distress to this borrower population. This could increase default rates and put additional pressure on property values. Should adverse circumstances develop, the value of these securities could decline and trigger the recognition of further other-than-temporary impairment charges.

Other debt securities include the Company's investments in two 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 December 31, 2010 are the most senior tranches for both principal and interest payments. 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 $9.0 million unrealized loss at December 31, 2010 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, 2009, total securities available-for-sale had a fair value of $4.31 billion, which included $1.69 billion of securities available-for-sale in an unrealized loss position as of December 31, 2009. At December 31, 2009, the Company had 155 debt securities in an unrealized loss position. The debt securities in an unrealized loss position include 1 U.S. Treasury bill, 15 Federal agency securities, 30 Federal agency MBS, 44 Federal agency CMOs, 29 private label CMOs, 32 state and municipal securities and 4 other debt securities.

Note 6. Other Investments

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

The Company's investment in stock issued by the Federal Home Loan Bank of San Francisco ("FHLB") and Federal Reserve ("FRB") totaled $120.7 million and $123.2 million at December 31, 2010 and 2009, respectively. Ownership of government agency securities is restricted to member banks,

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Other Investments (Continued)

and the securities do not have readily determinable market values. The Company records investments in FHLB and FRB stock at cost in Other assets of the consolidated balance sheets and evaluates these investments for impairment.

At December 31, 2010, the Company held $89.8 million of FHLB stock. FHLB banks are cooperatives that provide products and services to member banks. The FHLB provides significant liquidity to the U.S. banking system through advances to its member banks in exchange for collateral. The purchase of stock is required in order to receive advances and other services. The Company completed an assessment of its investment in FHLB stock for impairment at December 31, 2010. The FHLB experienced higher levels of other-than-temporary impairment in its investments in private label mortgage-backed securities in 2009 due to weakness in the economy and housing market. The level of other-than-temporary impairment charges decreased in 2010 compared with 2009 as the economy and selected housing markets experienced modest recoveries. Additionally, the FHLB has taken steps to preserve capital and increase the balance of restricted retained earnings available to protect members' paid-in-capital from the effects of adverse credit events, and its capital-to-assets ratio was well above regulatory requirements at December 31, 2010. The FHLB has access to a high level of government support to maintain liquidity and access to funding. The Company expects to recover the full amount invested in FHLB stock and does not consider its investment to be impaired at December 31, 2010.

Private Equity and Alternative Investments

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

(in thousands) Fund Type	December 31, 2010	 2009
Private equity and venture capital	$ 21,408	$ 21,617
Real estate	10,053	9,061
Hedge	2,953	2,700
Other	3,040	4,038
Total	$ 37,454	$ 37,416

Management reviews these investments quarterly for impairment. The impairment assessment includes a review of the most recent financial statements and investment reports for each fund and discussions with fund management. An impairment loss is recognized if it is deemed probable that the Company will not recover the cost of an investment. The impairment loss is recognized in Other noninterest income in the consolidated income statements. The new cost basis of the investment is not adjusted for subsequent recoveries in value. The Company recognized impairment totaling $1.4 million and $3.7 million during 2010 and 2009, respectively. The table below provides information as of

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Other Investments (Continued)

December 31, 2010 on private equity and alternative investments measured at fair value on a nonrecurring basis due to the recognition of impairment:

Alternative Investments Measured at Fair Value on a Nonrecurring Basis

(in thousands) Fund Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity and venture capital (2)	$ 2,953	$ 250	None(1)	N/A
Real estate (3)	7,398	1,536	None(1)	N/A
Hedge (4)	453		(4)	(4)
Total	$ 10,804	$ 1,786		

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

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

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

(4) Fund invests in other hedge funds. Fund is being liquidated and capital returned to investors as the underlying investments are sold or redeemed.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. 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:

(in thousands)	December 31, 2010	2009
Commercial	$ 4,136,874	$ 4,335,052
Commercial real estate mortgages	1,958,317	2,161,451
Residential mortgages	3,552,312	3,533,453
Real estate construction	467,785	835,589
Equity lines of credit	733,741	734,182
Installment loans	160,144	172,566
Lease financing	377,455	374,615
Loans and leases, excluding covered loans	11,386,628	12,146,908
Less: Allowance for loan and lease losses	(257,007)	(288,493)
Loans and leases, excluding covered loans, net	11,129,621	11,858,415
Covered loans	1,857,522	1,851,821
Less: Allowance for loan losses	(67,389)	
Covered loans, net	1,790,133	1,851,821
Total loans and leases	$ 13,244,150	$ 13,998,729
Total loans and leases, net	$ 12,919,754	$ 13,710,236

The loan amounts above include net unamortized fees and costs of $7.0 million and $6.2 million as of December 31, 2010 and 2009, respectively.

In the normal course of business, the Bank makes loans to executive officers and directors and to companies and individuals affiliated with or guaranteed by officers and directors of the Company and the Bank. These loans were made in the ordinary course of business at rates and terms no more favorable than those offered to others with a similar credit standing. The aggregate dollar amounts of these loans were $54.8 million and $56.9 million at December 31, 2010 and 2009, respectively. During 2010, new loans and advances totaled $50.9 million and repayments totaled $56.6 million. Interest income recognized on these loans amounted to $2.1 million, $2.3 million and $2.6 million during 2010, 2009, and 2008, respectively. At December 31, 2010, none of these loans was past due or on nonaccrual status. Based on analysis of information presently known to management about the loans to officers and directors and their affiliates, management believes all have the ability to comply with the present loan repayment terms.

The Company has no residential mortgage loans with high LTVs (as defined in FDICIA as greater than 90 percent), loans with option ARM terms, as defined in ASC 825-10-55, *Financial Instruments Concentrations Involving Loan Product Terms,* or that allow for negative amortization. The Company does offer interest-only loans. Excluding covered loans, there were interest-only residential mortgages totaling approximately $975.4 million and home equity lines of credit totaling approximately $733.7 million as of December 31, 2010. As of December 31, 2009, there were interest-only residential mortgages totaling approximately $945.1 million and home equity lines of credit totaling approximately $734.2 million.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The Company's lending activities are predominantly in California, and to a lesser extent, New York and Nevada. Excluding covered loans, at December 31, 2010, California represented 86 percent of total loans outstanding and Nevada and New York represented 2 percent and 6 percent, respectively. The remaining 6 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 December 31, 2010, the five states with the largest concentration were California (42 percent), Texas (12 percent), Nevada (6 percent), New York (5 percent) and Arizona (4 percent). The remaining 31 percent of total covered loans outstanding represented other states.

The Company has pledged eligible residential first mortgages, equity lines of credit and commercial loans totaling $5.34 billion as collateral for its borrowing facility at the Federal Home Loan Bank of San Francisco.

Covered Loans

Covered loans represent loans acquired from the FDIC that are subject to loss sharing agreements and were $1.86 billion as of December 31, 2010 and $1.85 billion at December 31, 2009. Covered loans, net of allowance for loan losses of $67.4 million, were $1.79 billion as of December 31, 2010. There was no allowance for loan losses on covered loans as of December 31, 2009.

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

	December 31,	
(in thousands)	**2010**	**2009**
Commercial	$ 55,082	$ 10,337
Commercial real estate mortgages	1,569,739	1,640,828
Residential mortgages	18,380	7,477
Real estate construction	204,945	193,179
Equity lines of credit	6,919	
Installment loans	2,457	
Total covered loans	1,857,522	1,851,821
Less: Allowance for loan losses	(67,389)	
Total covered loans, net	$ 1,790,133	$ 1,851,821

The Company evaluated the acquired loans from ICB, FPB and SWB and concluded that all loans, with the exception of a small population of acquired loans, would be accounted for under ASC 310-30. Loans are accounted for under ASC 310-30 when there is evidence of credit deterioration since origination and for which it is probable, at acquisition, that the Company would be unable to collect all contractually required payments.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

As of the respective acquisition dates, the preliminary estimates of the contractually required payments for all acquired impaired loans of FPB and SWB were $643.3 million, the cash flows expected to be collected were $378.9 million, and the fair value of the loans was $330.6 million. These amounts were determined based on the estimated remaining life of the underlying loans, which includes the effects of estimated prepayments. As fair value of the acquired loans included estimated credit losses, an allowance for loan losses was not recorded at acquisition date. Interest income is recognized on all acquired impaired loans through accretion of the difference between the carrying amount and the expected cash flows of the loans.

Changes in the accretable yield for acquired impaired loans were as follows for the years ending December 31, 2010 and 2009:

	Year ended December 31,	
(in thousands)	**2010**	**2009**
Balance, beginning of period	$ 687,126	$
Additions	48,644	691,086
Accretion	(116,477)	(3,960)
Reclassifications to nonaccretable yield	(27,411)	
Disposals and other	(29,056)	
Balance, end of period	$ 562,826	$ 687,126

Because of the short time period between the closing of the ICB acquisition and year-end 2009, certain 2009 amounts related to the acquired impaired ICB loans were preliminary estimates. In finalizing its analysis of these loans, the Company recorded adjustments to 2009 amounts during year-end 2010 that are reflected in the Disposals and other line of the above table.

At acquisition date, the Company recorded an FDIC indemnification asset for its FDIC-assisted acquisitions of ICB in December 2009 and FPB and SWB in May 2010. The FDIC indemnification asset represents the present value of the expected reimbursement from the FDIC related to expected losses on acquired loans, OREO and unfunded loan commitments. The FDIC indemnification asset from all three acquisitions totaled $295.5 million at December 31, 2010 and $380.7 million at December 31, 2009. See Note 3, *Business Combinations*, for further discussion of the FDIC indemnification asset.

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 in 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

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

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 is a summary of activity in the allowance for loan and lease losses and ending balances of loans evaluated for impairment, excluding covered loans, for the years ended December 31, 2010 and 2009. Activity is provided by loan type which is consistent with the Company's methodology for determining the allowance for loan and lease losses.

(in thousands)	Commercial (1)	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Equity Lines of Credit	Installment	Unallocated	Total
Year ended December 31, 2010								
Allowance for loan and lease losses:								
Beginning balance	$ 110,547	$ 52,011	$ 12,797	$ 53,722	$ 3,734	$ 4,665	$ 51,017	$ 288,493
Provision for credit losses (2)	35,200	30,103	7,153	17,686	5,463	920	2,286	98,811
Charge-offs	(69,427)	(29,833)	(3,327)	(36,020)	(2,120)	(2,529)		(143,256)
Recoveries	6,131	235	130	5,436	152	875		12,959
Net charge-offs	(63,296)	(29,598)	(3,197)	(30,584)	(1,968)	(1,654)		(130,297)
Ending balance	$ 82,451	$ 52,516	$ 16,753	$ 40,824	$ 7,229	$ 3,931	$ 53,303	$ 257,007
Ending balance of allowance:								
Individually evaluated for impairment	$ 2,592	$ 1,889	$ 342	$ 366	$ 255	$	$	$ 5,444
Collectively evaluated for impairment	79,859	50,627	16,411	40,458	6,974	3,931	53,303	251,563
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases excluding covered loans	$ 4,514,329	$ 1,958,317	$ 3,552,312	$ 467,785	$ 733,741	$ 160,144	$	$ 11,386,628
Individually evaluated for impairment	16,715	42,580	16,889	108,221	4,859	1,148		190,412
Collectively evaluated for impairment	4,497,614	1,915,737	3,535,424	359,564	728,882	158,996		11,196,216
Year ended December 31, 2009								

Allowance for loan and lease losses:								
Beginning balance	$ 77,323	$ 33,890	$ 7,033	$ 48,402	$ 2,772	$ 2,983	$ 51,643	$ 224,046
Provision for credit losses (2)	120,906	26,784	8,169	125,771	2,976	6,383	(626)	290,363
Charge-offs	(93,590)	(8,775)	(2,514)	(125,358)	(2,016)	(5,018)		(237,271)
Recoveries	5,908	112	109	4,907	2	317		11,355
Net charge-offs	(87,682)	(8,663)	(2,405)	(120,451)	(2,014)	(4,701)		(225,916)
Ending balance	$ 110,547	$ 52,011	$ 12,797	$ 53,722	$ 3,734	$ 4,665	$ 51,017	$ 288,493
Ending balance of allowance:								
Individually evaluated for impairment	$ 25,247	$ 8,214	$ 546	$ 19,070	$	$ 2,731	$	$ 55,808
Collectively evaluated for impairment	85,300	43,797	12,251	34,652	3,734	1,934	51,017	232,685
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases excluding covered loans	$ 4,709,667	$ 2,161,451	$ 3,533,453	$ 835,589	$ 734,182	$ 172,566	$	$ 12,146,908
Individually evaluated for impairment	75,596	75,548	13,886	201,442	1,200	8,071		375,743
Collectively evaluated for impairment	4,634,071	2,085,903	3,519,567	634,147	732,982	164,495		11,771,165

(1) Includes lease financing loans.

(2) Provision for credit losses for 2010 in this table includes total provision for credit losses of $103.0 million, net of total transfers to the reserve for off-balance sheet credit commitments of $4.2 million. Provision for credit losses for 2009 in this table includes total provision for credit losses of $285.0 million and total transfers from the reserve for off-balance sheet credit commitments of $5.4 million.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

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:

(in thousands)	Year ended December 31, 2010	2009	2008
Balance, beginning of the year	$ 17,340	$ 22,703	$ 19,704
Transfers from (to) allowance for loan and lease losses	4,189	(5,363)	2,999
Balance, end of the year	$ 21,529	$ 17,340	$ 22,703

Nonaccrual Loans and Leases

The table below provides a summary of nonaccrual loans and leases, excluding covered loans, at December 31, 2010 and 2009:

(in thousands)	December 31, 2010	2009
Commercial	$ 19,498	$ 76,103
Commercial real estate mortgages	44,882	76,027
Residential mortgages:		
Fixed	13,253	5,292
Variable	5,468	10,196
Total residential mortgages	18,721	15,488
Real estate construction:		
Construction	74,446	148,608
Land	23,763	53,997
Total real estate construction	98,209	202,605
Equity lines of credit	6,782	3,422
Installment:		
Commercial	1,414	8,261
Consumer	282	915
Total installment	1,696	9,176
Lease financing	1,135	5,886
Total nonaccrual loans	$ 190,923	$ 388,707

The following table provides a summary of contractual interest foregone on nonaccrual loans, excluding covered loans, for 2010, 2009 and 2008:

(in thousands)	December 31, 2010	2009	2008
Contractual interest due	$ 17,869	$ 21,613	$ 7,570
Less: interest collected and applied to principal	(6,355)	(5,867)	(2,356)

Net interest foregone	$ 11,514	$ 15,746	$ 5,214

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. 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 December 31, 2010 and 2009 is provided in the following tables:

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

Total installment								4,037		
Lease financing		855		855				855		
Total with an allowance	$	41,280	$	41,279	$	5,444	$	155,431	$	
Total impaired loans by type:										
Commercial	$	15,862	$	15,860	$	2,592	$	42,839	$	624
Commercial real estate mortgages		42,635		42,580		1,889		59,057		352
Residential mortgages		16,991		16,889		342		15,470		
Real estate construction		108,360		108,221		366		154,770		797
Equity lines of credit		4,874		4,859		255		3,039		
Installment		1,178		1,148				4,626		
Lease financing		855		855				855		
Total impaired loans	$	190,755	$	190,412	$	5,444	$	280,656	$	1,773

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Year ended December 31, 2009					
With no related allowance recorded:					
Commercial	$ 3,851	$ 3,850	$	$ 9,211	$
Commercial real estate mortgages	33,145	33,168		19,151	
Residential mortgages:					
Fixed	2,289	2,278		1,144	
Variable	9,447	9,403		6,522	
Total residential mortgages	11,736	11,681		7,666	
Real estate construction:					
Construction	26,092	26,267		27,590	
Land	24,947	24,906		47,837	
Total real estate construction	51,039	51,173		75,427	
Equity lines of credit	1,204	1,200		602	
Installment:					
Commercial				319	
Lease financing					
Total with no related allowance	$ 100,975	$ 101,072	$	$ 112,376	$
With an allowance recorded:					
Commercial	$ 65,964	$ 65,933	$ 25,247	$ 47,589	$
Commercial real estate mortgages	42,334	42,380	8,214	21,167	
Residential mortgages:					
Fixed	1,778	1,770	463	889	
Variable	437	435	83	219	
Total residential mortgages	2,215	2,205	546	1,108	
Real estate construction:					
Construction	122,213	122,342	12,848	83,539	
Land	27,927	27,927	6,222	16,496	
Total real estate construction	150,140	150,269	19,070	100,035	
Equity lines of credit				251	
Installment:					
Commercial	7,925	7,921	2,661	3,962	
Consumer	151	150	70	508	
Total installment	8,076	8,071	2,731	4,470	
Lease financing	5,813	5,813		5,813	
Total with an allowance	$ 274,542	$ 274,671	$ 55,808	$ 180,433	$

Total impaired loans by type:

Commercial	$ 69,815	$ 69,783	$ 25,247	$ 56,800	$
Commercial real estate mortgages	75,479	75,548	8,214	40,318	
Residential mortgages	13,951	13,886	546	8,774	
Real estate construction	201,179	201,442	19,070	175,462	
Equity lines of credit	1,204	1,200		853	
Installment	8,076	8,071	2,731	4,789	
Lease financing	5,813	5,813		5,813	
Total impaired loans	$ 375,517	$ 375,743	$ 55,808	$ 292,809	$

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

The principal balance and recorded investment of impaired loans, excluding covered loans, was $190.4 million and $190.8 million, respectively, at December 31, 2010. The recorded investment in an impaired loan includes loan principal, net of prior charge-offs, increased or decreased by accrued interest and net of deferred fees or costs. Impaired loans at December 31, 2010 include $10.8 million of 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. At December 31, 2010 there were $179.6 million of impaired loans included in nonaccrual loans, with an allowance allocation of $5.4 million. Impaired loans exclude $11.3 million of nonaccrual loans under $500,000 that are not individually evaluated for impairment. Impaired loans with commitments of less than $500,000 are aggregated for the purpose of measuring impairment using historical loss factors as a means of measurement. At December 31, 2009, the principal balance and recorded investment in impaired loans was $375.7 million and $375.5 million, respectively.

The average balance of impaired loans was $280.7 million, $292.8 million and $139.6 million for 2010, 2009 and 2008, respectively. With the exception of restructured loans that have been returned to accrual status, interest income is not recognized on impaired loans until the principal balance of these loans are paid off.

Troubled Debt Restructured Loans

Troubled debt restructured loans were $32.5 million, before specific reserves of $1.6 million, at December 31, 2010. Troubled debt restructured loans were $11.2 million, before specific reserves of $1.0 million at December 31, 2009. There were no commitments to lend additional funds on restructured loans at December 31, 2010.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

Past Due Loans and Leases

Loans are considered past due following the date when either interest or principal is contractually due and unpaid. A summary of past due loans, excluding covered loans, at December 31, 2010 and 2009 based upon the length of time the loans have been past due is provided below:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
December 31, 2010							
Commercial	$ 9,832	$ 4,178	$ 904	$ 19,498	$ 34,412	$ 4,102,462	$ 4,136,874
Commercial real estate mortgages	15,112	3,996		44,882	63,990	1,894,327	1,958,317
Residential mortgages:							
Fixed		731	379	13,253	14,363	1,628,683	1,643,046
Variable				5,468	5,468	1,903,798	1,909,266
Total residential mortgages		731	379	18,721	19,831	3,532,481	3,552,312
Real estate construction:							
Construction	554			74,446	75,000	251,518	326,518
Land				23,763	23,763	117,504	141,267
Total real estate construction	554			98,209	98,763	369,022	467,785
Equity lines of credit	74	526		6,782	7,382	726,359	733,741
Installment:							
Commercial	63			1,414	1,477	29,684	31,161
Consumer	304			282	586	128,397	128,983
Total installment	367			1,696	2,063	158,081	160,144
Lease financing	7		1,216	1,135	2,358	375,097	377,455
Total	$ 25,946	$ 9,431	$ 2,499	$ 190,923	$ 228,799	$ 11,157,829	$ 11,386,628
December 31, 2009							
Commercial	$ 15,740	$ 6,092	$ 3,651	$ 76,103	$ 101,586	$ 4,233,466	$ 4,335,052
Commercial real estate mortgages	5,585		1,582	76,027	83,194	2,077,533	2,160,727
Residential mortgages:							
Fixed	1,196	1,880	456	5,292	8,824	1,703,034	1,711,858
Variable				10,196	10,196	1,811,399	1,821,595
Total residential mortgages	1,196	1,880	456	15,488	19,020	3,514,433	3,533,453
Real estate construction:							
Construction	22,856			148,608	171,464	415,454	586,918
Land	610	725		53,997	55,332	194,064	249,396

Total real estate construction	23,466	725		202,605	226,796	609,518	836,314
Equity lines of credit	31			3,422	3,453	730,728	734,181
Installment:							
Commercial	31	559		8,261	8,851	27,925	36,776
Consumer	182	212		915	1,309	134,481	135,790
Total installment	213	771		9,176	10,160	162,406	172,566
Lease financing				5,886	5,886	368,729	374,615
Total	$ 46,231	$ 9,468	$ 5,689	$ 388,707	$ 450,095	$ 11,696,813	$ 12,146,908

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

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 reviewed and updated quarterly. The table below provides a summary of the loan and lease portfolio, excluding covered loans, by loan type and credit quality classification. 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.

	December 31, 2010			December 31, 2009		
(in thousands)	**Nonclassified**	**Classified**	**Total**	**Nonclassified**	**Classified**	**Total**
Commercial	$ 4,009,923	$ 126,951	$ 4,136,874	$ 4,065,862	$ 269,190	$ 4,335,052
Commercial real estate mortgages	1,727,353	230,964	1,958,317	1,937,550	223,901	2,161,451
Residential mortgages:						
Fixed	1,615,970	27,076	1,643,046	1,692,127	19,731	1,711,858
Variable	1,880,570	28,696	1,909,266	1,774,344	47,251	1,821,595
Total residential mortgages	3,496,540	55,772	3,552,312	3,466,471	66,982	3,533,453
Real estate construction:						
Construction	129,671	196,847	326,518	247,788	339,130	586,918
Land	53,400	87,867	141,267	114,047	134,624	248,671
Total real estate construction	183,071	284,714	467,785	361,835	473,754	835,589
Equity lines of credit	716,276	17,465	733,741	716,110	18,072	734,182
Installment:						
Commercial	21,349	9,812	31,161	27,956	8,820	36,776
Consumer	126,905	2,078	128,983	134,018	1,772	135,790
Total installment	148,254	11,890	160,144	161,974	10,592	172,566
Lease financing	371,684	5,771	377,455	360,559	14,056	374,615
Total	$ 10,653,101	$ 733,527	$ 11,386,628	$ 11,070,361	$ 1,076,547	$ 12,146,908

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

Credit Quality on Covered Loans

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

(in thousands)	Year ended December 31, 2010	2009
Balance, beginning of period	$	$
Provision for losses	(76,218)	
Charge-offs	414	
Reduction in allowance due to loan removals	8,415	
Balance, end of period	$ (67,389)	$

The allowance for loan losses on covered loans was $67.4 million as of December 31, 2010. The Company recorded provision expense of $76.2 million in 2010. Approximately $0.4 million of the provision on covered loans related to acquired loans that are outside the scope of ASC 310-30. 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 in 2010 is mainly the result of lower projected interest cash flows due to the Company's revised default forecasts, though credit losses remain in line with previous expectations. The revisions of the default forecasts were based on the results of management's review of the credit quality of the covered loans and the analysis of the loan performance data since the acquisition of covered loans. The allowance for loan losses on covered loans is reduced for any loan removals. A loan is removed when it has been fully paid-off, fully charged off, sold or transferred to OREO.

Covered loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. At December 31, 2010 and 2009, there were no acquired impaired covered loans accounted for under ASC 310-30 that were on nonaccrual basis. Of the population of covered loans that are accounted for outside the scope of ASC 310-30, the Company had $2.6 million of acquired covered loans that were on nonaccrual status and were considered to be impaired as of December 31, 2010.

At December 31, 2010, covered loans that are 30 to 89 days delinquent were $99.5 million and covered loans that are 90 days or more past due on accrual status were $399.0 million. At December 31, 2009, covered loans that are 30 to 89 days delinquent were $107.7 million and covered loans that are 90 days or more past due on accrual status were $173.3 million.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8. Other Real Estate Owned

The following table provides a summary of OREO activity for 2010 and 2009:

	2010			2009		
(in thousands)	Non-Covered OREO	Covered OREO	Total	Non-Covered OREO	Covered OREO	Total
Balance, beginning of year	$ 53,308	$ 60,558	$ 113,866	$ 11,388	$	$ 11,388
Additions	59,382	124,737	184,119	66,003	62,451	128,454
Sales	(34,645)	(39,437)	(74,082)	(10,663)	(1,222)	(11,885)
Valuation adjustments	(20,728)	(24,992)	(45,720)	(13,420)	(671)	(14,091)
Balance, end of year	$ 57,317	$ 120,866	$ 178,183	$ 53,308	$ 60,558	$ 113,866

At December 31, 2010, OREO was $178.2 million and included $120.9 million of covered OREO. Covered OREO represents OREO covered by FDIC loss sharing agreements associated with the acquisitions of ICB, FPB and SWB. At December 31, 2009, OREO was $113.9 million and included $60.6 million of covered OREO.

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 9. Premises and Equipment

The following is a summary of the major categories of premises and equipment:

(in thousands)	Cost	Accumulated Depreciation And Amortization	Carrying Value	Range of Lives
December 31, 2010				
Premises, including land of $3,511	$ 143,658	$ 89,931	$ 53,727	0 to 39 years
Furniture, fixtures and equipment	171,642	137,798	33,844	3 to 10 years
Software	99,749	58,894	40,855	5 years
Total	$ 415,049	$ 286,623	$ 128,426	
December 31, 2009				
Premises, including land of $3,511	$ 136,803	$ 82,449	$ 54,354	0 to 39 years
Furniture, fixtures and equipment	164,868	128,543	36,325	3 to 10 years

Software	84,038	50,408	33,630	5 years
Total	$ 385,709	$ 261,400	$ 124,309	

Depreciation and amortization expense was $25.8 million, $26.2 million and $22.2 million in 2010, 2009 and 2008, respectively. Net rental payments on operating leases included in Net occupancy of premises in the consolidated statements of income were $46.5 million, $43.2 million and $41.8 million in 2010, 2009 and 2008, respectively.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Premises and Equipment (Continued)

The future net minimum rental commitments were as follows at December 31, 2010:

(in thousands)	Net Minimum Rental Commitments
2011	$ 36,259
2012	35,161
2013	32,621
2014	31,386
2015	29,839
Thereafter	95,580
	$ 260,846

The rental commitment amounts in the table above reflect the contractual obligations of the Company under all leases. Lease obligations related to acquisitions have been adjusted to current market values through acquisition accounting adjustments. The allowance thus created is being accreted over the terms of the leases and will increase or reduce the total expense recognized by the Company in its operating expenses. At December 31, 2010, the Company is contractually entitled to receive minimum future rentals of $6.1 million under non-cancelable sub-leases with terms through 2038.

A majority of the leases provide for the payment of taxes, maintenance, insurance, and certain other expenses applicable to the leased premises. Many of the leases contain extension provisions and escalation clauses.

Note 10. Goodwill and Intangibles

The following table summarizes the Company's goodwill and other intangible assets as of December 31, 2010 and 2009:

(in thousands)	December 31, 2009	Additions	Reductions	December 31, 2010
Goodwill	$ 513,392	$ 6,088	$	$ 519,480
Accumulated amortization	(33,410)			(33,410)
Net goodwill	$ 479,982	$ 6,088	$	$ 486,070
Customer-Relationship Intangibles				
Core deposit intangibles	$ 22,855	$ 3,812	$	$ 26,667
Accumulated amortization	(9,765)	(5,302)		(15,067)
Client advisory contracts	45,476		(570)	44,906
Accumulated amortization	(12,965)	(3,302)	138	(16,129)
Other client service contracts		2,187		2,187
Net intangibles	$ 45,601	$ (2,605)	$ (432)	$ 42,564

In 2010, the Company recorded $6.1 million of goodwill and a $2.2 million customer contract intangible related to its acquisition of an accounting software company, and $2.5 million and $1.3 million of core deposit intangibles related to its acquisitions of FPB and SWB, respectively. Refer to Note 3, *Business Combinations*, for further discussion of the acquisitions.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10. Goodwill and Intangibles (Continued)

Customer relationship intangibles are amortized over their estimated lives. At December 31, 2010, the estimated aggregate amortization of intangibles for the years 2011 through 2015 is $8.3 million, $6.4 million, $5.8 million, $4.0 million, and $3.2 million, respectively.

Impairment Assessment

Management completed an assessment of goodwill and intangibles for impairment during the fourth quarter of 2010. The goodwill assessment was completed at a reporting unit level. Fair values were determined using methods consistent with current industry practices for valuing similar types of companies. A market multiple of net income was used to value the Bank reporting unit. The fair values of the wealth management affiliates were based on the fair values calculated for the affiliate non-controlling interests. These values were adjusted to determine an implied external fair value for the entire firm excluding any discount for lack of control and marketability. The resulting values for the affiliates were compared to various other market valuation metrics. The sum of the fair values of the reporting units was compared with the Company's market capitalization on a range of dates including year end and subsequent to year end. The excess of fair value over the Company's market capitalization on these dates reflects the value of the synergies and benefits that would arise from maintaining control over the Company. Based upon the analysis performed, the fair values of the reporting units exceeded their carrying value (including goodwill); therefore, management concluded that no impairment of goodwill existed at December 31, 2010. It is possible that a future conclusion could be reached that all or a portion of the Company's goodwill is impaired, in which case a non-cash charge for the amount of such impairment would be recorded in operations. Such a charge, if any, would have no impact on tangible capital and would not affect the Company's "well-capitalized" designation.

The assessment of customer-relationship intangibles for impairment was completed at the individual asset level. The fair value of core deposit intangibles was determined using market-based core deposit premiums from recent deposit sale transactions. The fair value of core deposit intangibles exceeded their carrying amount at December 31, 2010. For client advisory contract intangibles recorded by the wealth management affiliates, the undiscounted projected future cash flows associated with the client contracts was compared to their carrying value to determine whether there was impairment. Management concluded that no impairment of customer-relationship intangibles existed at December 31, 2010.

Note 11. Deposits and Borrowed Funds

The following table sets forth the maturity distribution of time deposits as of December 31, 2010:

(in millions)	2011	2012	2013	2014	2015	Thereafter	Total
Time deposits, $100,000 and over	$ 757.4	$ 66.9	$ 25.1	$ 10.5	$ 21.4	$ 1.2	$ 882.5
Other time deposits	305.2	17.8	8.4	3.5	3.0	0.2	338.1
Total time deposits	$ 1,062.6	$ 84.7	$ 33.5	$ 14.0	$ 24.4	$ 1.4	$ 1,220.6

Short-term borrowings consist of funds with remaining maturities of one year or less, and long-term debt consists of borrowings with remaining maturities greater than one year. Details

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Deposits and Borrowed Funds (Continued)

regarding federal funds purchased, securities sold under repurchase agreements, and other short-term borrowings follow:

	2010			2009			2008		
(in thousands)	Balances at Year-end	Average Balance	Average Rate	Balances at Year-end	Average Balance	Average Rate	Balances at Year-end	Average Balance	Average Rate
Federal funds purchased	$	$ 29,131	0.10%	$ 426,779	$ 214,672	0.16%	$ 708,157	$ 896,676	2.18%
Securities sold under repurchase agreements		134,178	3.92	200,000	200,000	3.98	200,000	202,055	3.97
Other short-term borrowings	620	711	0.08	690	52,298	0.63	124,500	667,457	2.69
Total	$ 620	$ 164,020	3.23%	$ 627,469	$ 466,970	1.85%	$ 1,032,657	$ 1,766,188	2.58%
Maximum month-end balance									
Federal funds purchased	$ 99,394			$ 689,202			$ 1,361,678		
Securities sold under repurchase agreements	200,000			200,000			206,277		
Other short-term borrowings	750			121,859			955,000		

In 2010, the Company extinguished $175.0 million of structured repurchase agreements prior to maturity. As a result of the early retirement of debt, the Company recognized a $12.3 million termination cost which is recognized as a reduction of other income in the consolidated statements of income.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Deposits and Borrowed Funds (Continued)

The components of the current portion of subordinated debt and long-term debt are provided below:

(in thousands) (1)	December 31, 2010	2009
Current portion of subordinated debt		
City National Bank 6.75% Subordinated Notes Due September 2011	$ 152,824	$
Long-term portion of subordinated debt (1)		
City National Bank 6.75% Subordinated Notes Due September 2011		160,806
City National Bank 9.00% Subordinated Notes Due July 2019 (2)	49,680	49,643
City National Bank 9.00% Subordinated Notes Due August 2019	74,839	74,820
City National Bank Fixed and Floating Subordinated Notes due August 2019 (3)	54,882	54,868
Total long-term portion of subordinated debt	179,401	340,137
Total subordinated debt	$ 332,225	$ 340,137
Long-term debt		
Senior Notes:		
City National Corporation 5.125% Senior Notes Due February 2013	$ 223,416	$ 221,946
City National Corporation 5.25% Senior Notes Due September 2020	297,003	
Junior Subordinated Debt:		
Floating Rate Business Bancorp Capital Trust I Securities Due November 2034 (4)	5,151	5,151
9.625% City National Capital Trust I Securities Due February 2040		243,578
Other long-term debt		354
Total long-term debt	$ 525,570	$ 471,029

(1)

The carrying value of 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 6 percent or to prime plus 5 percent.

(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 December 31, 2010, the interest rate was 2.25 percent.

Total subordinated debt was $332.2 million as of December 31, 2010, of which $152.8 million is due in 2011, compared to total subordinated debt of $340.1 million as of December 31, 2009. Subordinated debt qualifies as Tier 2 capital for regulatory purposes. On July 15, 2009, the Bank issued

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Deposits and Borrowed Funds (Continued)

a $50.0 million unsecured subordinated note to a third party investor. The subordinated note bears a 9 percent fixed rate of interest for five years, and thereafter, the rate is reset at the Bank's option to either LIBOR plus 6 percent or to prime plus 5 percent. The note matures on July 15, 2019. On August 12, 2009, the Bank issued $130.0 million in subordinated notes of which $55.0 million were floating rate subordinated notes and $75.0 million were fixed rate subordinated notes. The fixed rate subordinated notes bear a fixed interest rate of 9 percent. The floating rate subordinated notes bear a fixed interest rate of 9 percent for the initial five years from the date of issuance 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. These subordinated notes mature on August 12, 2019.

On December 8, 2009, City National Capital Trust I, a statutory trust formed by City National Corporation, issued $250.0 million of cumulative trust preferred securities. The notes pay a fixed rate of 9.625 percent and mature on February 1, 2040. On October 16, 2010, the Company redeemed the $250.0 million of trust preferred securities. The redemption resulted in a $6.8 million charge that is recognized as a reduction of other income in the consolidated statements of income.

On September 13, 2010, the Corporation issued $300 million of senior notes. The notes pay a fixed rate of 5.25 percent and mature on September 15, 2020. The majority of net proceeds from the senior notes were used to redeem the trust preferred securities.

The following table provides the maturity distribution of subordinated and long-term debt as of December 31, 2010:

(in millions)	2011	2012	2013	2014	2015	Thereafter	Total
Subordinated debt	$ 152.8	$	$	$	$	$ 179.4	$ 332.2
Long-term debt			223.4			302.2	525.6
Total borrowed funds	$ 152.8	$	$ 223.4	$	$	$ 481.6	$ 857.8

The Company has a remaining borrowing capacity of $3.23 billion as of December 31, 2010, secured by collateral, with the Federal Home Loan Bank of San Francisco, of which the Bank is a member.

Note 12. Shareholders' Equity

On January 24, 2008, the Board of Directors authorized the repurchase of 1 million shares of City National Corporation stock, following the completion of its previously approved stock buyback initiative. All purchases under the program were made in open market transactions and comply with the safe harbor provisions of SEC Rule 10B-18 regarding blackout periods and daily aggregate limits. The Corporation did not repurchase any shares of common stock in 2010 and 2009. An aggregate of 421,500 shares were repurchased in 2008. As of December 31, 2010, there were 1,140,400 shares that may yet be purchased under the January 24, 2008 buyback initiative. The Corporation received no shares in payment for the exercise price of stock options.

At December 31, 2010, the Corporation had 1.5 million shares of common stock reserved for issuance and 0.7 million shares of unvested restricted stock granted to employees and directors under share-based compensation programs.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12. Shareholders' Equity (Continued)

The components of accumulated other comprehensive income (loss) are as follows:

(in thousands)	December 31, 2010	2009
Net unrealized gain (loss) on securities available-for-sale	$ 36,386	$ (7,366)
Net unrealized gain on cash flow hedges	1,184	4,371
Pension liability adjustment	(717)	(54)
Total accumulated other comprehensive income (loss)	$ 36,853	$ (3,049)

On November 21, 2008, City National Corporation received aggregate proceeds of $400 million from the United States Department of the Treasury ("Treasury") under the Troubled Asset Relief Program ("TARP") Capital Purchase Program in exchange for 400,000 shares of cumulative perpetual preferred stock and a 10-year warrant to purchase up to 1,128,668 shares of the Company's common stock at an exercise price of $53.16 per share. The preferred stock and warrant were recorded in equity on a relative fair value basis at the time of issuance. The preferred stock was valued by calculating the present value of expected cash flows and the warrant was valued using an option valuation model. The allocated values of the preferred stock and warrant were approximately $389.9 million and $10.1 million, respectively. Cumulative dividends on the preferred stock were payable quarterly at the rate of 5 percent for the first five years and increasing to 9 percent thereafter. The warrant had a 10-year term and was immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to $53.16 per share of the common stock.

On December 30, 2009, the Corporation repurchased $200 million, or 200,000 shares, of preferred shares from the Treasury. The repurchase represented 50 percent of the preferred stock issued to the Treasury and required an accelerated accretion charge of $4.0 million in 2009. On March 3, 2010, the Corporation repurchased the remaining $200 million, or 200,000 shares, of preferred shares, which resulted in an accelerated accretion charge of $3.8 million in 2010. On April 8, 2010, the Corporation repurchased its outstanding common stock warrant issued to the Treasury. The repurchase price of $18.5 million was recorded as a charge to additional paid-in capital.

On May 8, 2009, the Corporation completed an offering of 2.8 million common shares at $39.00 per share. The net proceeds from the offering were $104.3 million. On May 15, 2009, the underwriters exercised their over-allotment option to purchase an additional 420,000 shares of the Corporation's common stock at $39.00 per share. The net proceeds from the exercise of the over-allotment option were $15.6 million. Common stock qualifies as Tier 1 capital.

Note 13. Availability of Funds from Subsidiaries and Capital

The Company is authorized to issue 5,000,000 shares of preferred stock. The Company's Board of Directors has the authority to issue the preferred stock in one or more series, and to fix the designations, rights, preferences, privileges, qualifications and restrictions, including dividend rights, conversion rights, voting rights, rights and terms of redemption, liquidation preferences, and sinking fund terms.

During 2001, the Bank formed and funded CN Real Estate Investment Corporation ("CN"), a wholly-owned subsidiary of the Bank. City National Bank contributed cash and participation interest in certain loans in exchange for 100 percent of the common stock of CN. The net income and assets of

Table of Contents

CN are eliminated in consolidation for all periods presented. CN sold Series A Preferred Stock to accredited investors in 2001 and Series B Preferred Stock in 2002. As of December 31, 2010, CN had outstanding 33,433 shares of Series A Preferred Stock and 6,828 shares of Series B Preferred Stock, both of which are included in Noncontrolling interest in the consolidated balance sheets. Dividends of $0.9 million, which are included in Net income attributable to noncontrolling interest in the consolidated statements of income, were paid in each of the years 2010, 2009 and 2008 on both of the preferred stock issues.

During 2002, the Bank converted its former registered investment company, a wholly-owned subsidiary of the Bank, to a real estate investment trust to provide the Bank with flexibility in raising capital. The net income and assets of City National Real Estate Investment Corporation II ("CNII") are eliminated in consolidation for all periods presented. During 2002 and 2003, CNII sold Series A Preferred Stock to accredited investors. As of December 31, 2010, CNII had outstanding 149,680 shares of Series A Preferred Stock, which is included in Noncontrolling interest in the consolidated balance sheets. Dividends of $1.3 million, which are also included in Net income attributable to noncontrolling interest in the consolidated statements of income, were paid in each of the years 2010, 2009 and 2008.

Historically, the majority of the funds for the payment of dividends by the Company have been obtained from the Bank. Dividends paid by the Bank to its parent company are subject to certain legal and regulatory limitations. In 2010, the Bank may pay dividends up to its net income for 2010, as defined by statute, through the date of any such dividend declaration, without prior regulatory approval. Federal banking law also prohibits the Company from borrowing from the Bank on less than a fully secured basis. The Company had no borrowings from the Bank at either December 31, 2010 or December 31, 2009.

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of the Corporation's and Bank's assets, liabilities and certain off-balance sheet items as calculated under the regulatory accounting rules. The Corporation's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined). As of December 31, 2010, the Corporation and the Bank met and exceeded all capital adequacy requirements to which either is subject. Additionally, the regulatory agencies are required by law to take specific prompt action with respect to banks that do not meet minimum capital standards. As of December 31, 2010, the Bank was categorized as "well capitalized." There have been no events or circumstances that cause the Company's management to believe that there would be a change in the Corporation's and the Bank's category of "well capitalized."

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Availability of Funds from Subsidiaries and Capital (Continued)

The Corporation's capital amounts and ratios are presented in the following table:

(in millions)	Actual Amount	Actual Ratio	Adequately Capitalized Amount	Adequately Capitalized Ratio	Well Capitalized Amount	Well Capitalized Ratio
As of December 2010						
Total capital (to risk weighted assets)	$ 1,820.7	13.28%	$ 1,097.0	≥ 8.0%	$ 1,371.2	≥ 10.0%
Tier 1 capital (to risk weighted assets)	1,441.8	10.52%	548.5	≥ 4.0%	822.7	≥ 6.0%
Tier 1 capital (to average assets)	1,441.8	6.74%	856.3	≥ 4.0%		
As of December 2009						
Total capital (to risk weighted assets)	$ 2,185.7	15.15%	$ 1,154.5	≥ 8.0%	$ 1,443.1	≥ 10.0%
Tier 1 capital (to risk weighted assets)	1,760.1	12.20%	577.2	≥ 4.0%	865.9	≥ 6.0%
Tier 1 capital (to average assets)	1,760.1	9.48%	742.9	≥ 4.0%		

The Bank's capital amounts and ratios are presented in the following table:

(in millions)	Actual Amount	Actual Ratio	Adequately Capitalized Amount	Adequately Capitalized Ratio	Well Capitalized Amount	Well Capitalized Ratio
As of December 2010						
Total capital (to risk weighted assets)	$ 2,103.7	15.50%	$ 1,085.9	≥ 8.0%	$ 1,357.3	≥ 10.0%
Tier 1 capital (to risk weighted assets)	1,751.8	12.91%	542.9	≥ 4.0%	814.4	≥ 6.0%
Tier 1 capital (to average assets)	1,751.8	8.28%	846.3	≥ 4.0%	1,057.9	≥ 5.0%
As of December 2009						
Total capital (to risk weighted assets)	$ 1,995.1	13.96%	$ 1,143.6	≥ 8.0%	$ 1,429.5	≥ 10.0%
Tier 1 capital (to risk weighted assets)	1,604.9	11.23%	571.8	≥ 4.0%	857.7	≥ 6.0%
Tier 1 capital (to average assets)	1,604.9	8.72%	736.4	≥ 4.0%	920.5	≥ 5.0%

The Corporation's Tier 1 capital ratios at December 31, 2010 and 2009 include $25.1 million of preferred stock issued by real estate investment trust subsidiaries of the Bank (included in Noncontrolling interest in the consolidated balance sheets). Tier 1 capital ratios at December 31, 2009 also include trust preferred securities issued by unconsolidated capital trust subsidiaries of the holding company, as well as TARP preferred stock.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14. 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:

(in thousands, except per share amounts)	For the year ended December 31, 2010	2009	2008
Basic EPS:			
Net income attributable to City National Corporation	$ 131,177	$ 51,339	$ 104,956
Less: Dividends and accretion on preferred stock	5,702	25,903	2,445
Net income available to common shareholders	$ 125,475	$ 25,436	$ 102,511
Less: Earnings allocated to participating securities	1,605	253	780
Earning allocated to common shareholders	$ 123,870	$ 25,183	$ 101,731
Weighted average common shares outstanding	51,992	50,272	47,930
Basic earnings per common share	$ 2.38	$ 0.50	$ 2.12
Diluted EPS:			
Earnings allocated to common shareholders (1)	$ 123,882	$ 25,183	$ 101,732
Weighted average common shares outstanding	51,992	50,272	47,930
Dilutive effect of equity awards	463	149	266
Weighted average diluted common shares outstanding	52,455	50,421	48,196
Diluted earnings per common share	$ 2.36	$ 0.50	$ 2.11

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

The average price of the Company's common stock for the period is used to determine the dilutive effect of outstanding stock options and common stock warrant. Antidilutive stock options and common stock warrant are not included in the calculation of basic or diluted EPS. There were 1.9 million average outstanding stock options and a 0.3 million average outstanding common stock warrant that were antidilutive for 2010, compared to 3.4 million average outstanding stock options and a 1.1 million average outstanding common stock warrant that were antidilutive for 2009 and 3.0 million average outstanding stock options and a 0.1 million average outstanding common stock warrant for 2008.

Note 15. Share-Based Compensation Plans

On December 31, 2010, the Company had one share-based compensation plan, the City National Corporation 2008 Omnibus Plan (the "Plan"), which was approved by the Company's shareholders on April 23, 2008. No new awards will be granted under predecessor plans. A description of the Plan is

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15. Share-Based Compensation Plans (Continued)

provided below. The compensation cost that has been recognized for all share-based awards was $16.7 million, $14.4 million and $14.7 million for 2010, 2009 and 2008, respectively. The Company received $23.8 million and $2.2 million in cash for the exercise of stock options during 2010 and 2009, respectively. The tax benefit recognized in equity for share-based compensation arrangements was $3.2 million for 2010 compared with a tax expense of $1.0 million for 2009.

Plan Description

The Plan permits the grant of stock options, restricted stock, restricted stock units, performance shares, performance share units, performance units and stock appreciation rights, or any combination thereof, to the Company's eligible employees and non-employee directors. No grants of performance shares, performance share units, performance units or stock appreciation rights had been made as of December 31, 2010. 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 interest 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 restricted 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 December 31, 2010, there were approximately 1.5 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.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15. Share-Based Compensation Plans (Continued)

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:

	December 31, 2010	2009	2008
Weighted-average volatility	31.41%	31.42%	29.35%
Dividend yield	0.73%	3.33%	3.57%
Expected term (in years)	6.10	6.11	6.04
Risk-free interest rate	2.91%	2.84%	3.95%

Using the Black-Scholes methodology, the weighted-average grant-date fair values of options granted during the years ended December 31, 2010, 2009 and 2008 were $16.82, $6.90, and $12.65, respectively. The total intrinsic values of options exercised during the years ended December 31, 2010, 2009 and 2008 were $11.8 million, $0.9 million, and $11.4 million, respectively.

A summary of stock option activity and related information for the years ended December 31, 2010, 2009, and 2008 are presented in the tables below:

Options	Number of Shares (in thousands)	Weighted Average Exercise Price (per share)	Aggregate Intrinsic Value (in thousands) (1)	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2010	4,862	$ 49.64		
Granted	591	50.34		
Exercised	(645)	36.85		
Forfeited or expired	(158)	53.30		
Outstanding at December 31, 2010	4,650	$ 51.38	$ 59,606	5.58
Exercisable at December 31, 2010	2,897	$ 57.10	$ 24,164	3.97

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

Options	2009 Number of Shares (in thousands)	2009 Weighted Average Exercise Price	2008 Number of Shares (in thousands)	2008 Weighted Average Exercise Price
Outstanding at January 1	4,029	$ 55.28	4,171	$ 52.60
Granted	1,133	27.42	644	54.03
Exercised	(77)	29.13	(622)	32.95
Forfeited or expired	(223)	45.61	(164)	66.89
Outstanding at December 31	4,862	$ 49.64	4,029	$ 55.28
Exercisable	3,001	$ 54.39	2,762	$ 51.30

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15. Share-Based Compensation Plans (Continued)

A summary of changes in unvested option and related information for the year ended December 31, 2010 is presented below:

Unvested Options	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2010	1,861	$ 10.14
Granted	591	16.82
Vested	(603)	12.20
Forfeited	(96)	11.33
Unvested at December 31, 2010	1,753	$ 11.62

The number of options vested during the year ended December 31, 2010, 2009 and 2008 was 603,051, 464,637 and 424,780, respectively. The total fair value of options vested during 2010, 2009 and 2008 was $7.4 million, $7.4 million and $7.2 million respectively. As of December 31, 2010, there was $13.0 million of unrecognized compensation cost related to unvested stock options granted under the Company's plans. That cost is expected to be recognized over a weighted-average period of 2.3 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 year ended December 31, 2010 is presented below:

Restricted Stock	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2010	610	$ 46.79
Granted	256	50.75
Vested	(116)	66.71
Forfeited	(33)	45.75
Unvested at December 31, 2010	717	$ 45.04

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 years ended December 31, 2010, 2009 and 2008 were $50.75, $27.81 and $54.28, respectively. The number of restricted shares vested during 2010, 2009 and 2008 was 115,764, 103,418 and 107,185. The total fair value of restricted stock vested during 2010, 2009 and 2008 was $7.7 million, $7.2 million, and $6.7 million, respectively. The compensation expense related to restricted stock for 2010 was $8.4 million compared with $7.3 million for 2009 and $7.5 million for 2008. As of December 31, 2010, the unrecognized compensation cost related to restricted stock granted under the Company's plans was $19.0 million. That cost is expected to be recognized over a weighted-average period of 3.3 years.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Derivative Financial Instruments

The following table summarizes the fair value and balance sheet classification of derivative instruments as of December 31, 2010 and 2009. The notional amount of the contract is not recorded on the consolidated balance sheets, but is used as the basis for determining the amount of interest payments to be exchanged between the counterparties. If a counterparty fails to perform, the Company's counterparty credit risk is equal to the amount reported as a derivative asset.

Fair Values of Derivative Instruments

	December 31, 2010			December 31, 2009		
(in millions)	**Notional Amount**	**Derivative Assets (1)**	**Derivative Liabilities (1)**	**Notional Amount**	**Derivative Assets (1)**	**Derivative Liabilities (1)**
Derivatives designated as hedging instruments						
Interest rate swaps fair value:						
Certificates of deposit	$ 10.0	$ 0.3	$	$ 20.0	$ 0.9	$
Long-term and subordinated debt	355.9	19.8		358.2	27.7	
Total fair value contracts	$ 365.9	$ 20.1	$	$ 378.2	$ 28.6	$
Interest rate swaps cash flow:						
U.S. Dollar LIBOR based loans	$	$	$	$ 350.0	$ 6.6	$
Prime based loans				100.0	2.5	0.6
Total cash flow contracts	$	$	$	$ 450.0	$ 9.1	$ 0.6
Total derivatives designated as hedging instruments	$ 365.9	$ 20.1	$	$ 828.2	$ 37.7	$ 0.6
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Swaps	$ 1,043.8	$ 25.7	$ 25.7	$ 997.6	$ 12.5	$ 12.1
Interest-rate caps, floors and collars	84.5	0.5	0.5	129.1	1.2	1.2
Options purchased	2.0	0.2	0.2	2.0	0.2	0.2
Options written	2.0			2.0		
Total interest-rate contracts	$ 1,132.3	$ 26.4	$ 26.4	$ 1,130.7	$ 13.9	$ 13.5
Equity index futures	$	$	$	$ 1.1	$	$
Foreign exchange contracts:						
Spot and forward contracts	$ 78.2	$ 1.3	$ 1.0	$ 215.7	$ 2.3	$ 2.0
Options purchased				58.6	0.8	0.8
Options written				58.6	0.3	0.3

Total foreign exchange contracts	$ 78.2	$ 1.3	$ 1.0	$ 332.9	$ 3.4	$ 3.1
Total derivatives not designated as hedging instruments	$ 1,210.5	$ 27.7	$ 27.4	$ 1,464.7	$ 17.3	$ 16.6

(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.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Derivative Financial Instruments (Continued)

Derivatives Designated as Hedging Instruments

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 December 31, 2009, the Company had $828.2 million notional amount of interest-rate swap hedge transactions, of which $378.2 million were designated as fair value hedges and $450.0 million were designated as cash flow hedges. The positive fair value of the fair value hedges of $28.6 million includes a mark-to-market asset of $26.8 million and net interest receivable of $1.8 million. The balance of deposits and borrowings reported in the consolidated balance sheet include a $26.8 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 $8.5 million includes a mark-to-market asset of $8.1 million, interest receivable of $1.0 million and a mark-to-market liability of $0.6 million. AOCI includes $4.3 million, after tax, related to the net positive fair value of cash flow hedges at December 31, 2009.

The Company's swap agreements require the deposit of cash or marketable debt securities as collateral based on certain risk thresholds. These requirements apply individually to the Corporation and to the Bank. Additionally, certain of the Company's swap agreements contain credit-risk-related contingent features. Under these agreements, the collateral requirements are based on the Company's credit rating from the major credit rating agencies. The amount of collateral required varies by counterparty based on a range of credit ratings that correspond with exposure thresholds established in the derivative agreements. If the credit rating on the Company's debt were to fall below the level associated with a particular exposure threshold and the derivatives with a counterparty are in a net liability position that exceeds that threshold, the counterparty could request immediate payment or delivery of collateral for the difference between the net liability amount and the exposure threshold. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position on December 31, 2010 was $11.0 million. The Company delivered collateral valued at $1.1 million on swap agreements that had credit-risk contingent features and were in a net liability position at December 31, 2010.

The Company's interest-rate swaps had $5.3 million and $8.0 million of credit risk exposure at December 31, 2010 and 2009, respectively. The credit exposure represents the cost to replace, on a present value basis and at current market rates, all contracts by trading counterparty having an aggregate positive market value, net of margin collateral received. The Company enters into master netting agreements with swap counterparties to mitigate credit risk. Under these agreements, the net amount due from or payable to each counterparty is settled on the contract payment date. Collateral in the form of securities valued at $9.7 million and $16.6 million had been received from swap counterparties at December 31, 2010 and 2009, respectively. Additionally, the Company held $3.1 million of cash collateral at December 31, 2010 received from a counterparty. The Company

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Derivative Financial Instruments (Continued)

delivered collateral valued at $7.4 million on swap agreements that did not have credit-risk contingent features at December 31, 2010.

The periodic net settlement of interest-rate swaps is recorded as an adjustment to interest income or interest expense. The impact of interest-rate swaps on interest income and interest expense for the years ended December 31, 2010 and 2009 is provided below:

(in millions) Derivative Instruments Designated as Hedging Instruments	Location in Consolidated Statements of Income	For the year ended December 31, 2010	 2009	 2008
Interest-rate swaps-fair value	Interest expense	$ (17.3)	$ (15.5)	$ (7.3)
Interest-rate swaps-cash flow	Interest income	8.5	12.0	5.5
Total income		$ 25.8	$ 27.5	$ 12.8

Fair value and cash flow interest-rate swaps increased net interest income by $25.8 million, $27.5 million and $12.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Changes in fair value of the effective portion of cash flow hedges are reported in AOCI. When the cash flows associated with the hedged item are realized, the gain or loss included in AOCI is recognized in Interest income on loans and leases, the same location in the consolidated statements of income as the income on the hedged item. The amount of gains on cash flow hedges reclassified from AOCI to interest income was $8.5 million, $12.0 million and $5.5 million for the years ended December 31, 2010, 2009 and 2008, respectively. Any ineffective portion of the changes of fair value of cash flow hedges is recognized immediately in Other noninterest income in the consolidated statements of income.

The amount of after-tax loss on the change in fair value of cash flow hedges recognized in AOCI was $4.3 million (net of taxes of $3.1 million) for the year ended December 31, 2010 compared with an after-tax loss of $2.4 million (net of taxes of $1.7 million) for 2009. There were no cash flow hedges outstanding at December 31, 2010.

Derivatives Not Designated as Hedging Instruments

Derivative contracts not designated as hedges are marked-to-market each reporting period with changes in fair value recorded as a part of Noninterest income in the consolidated statements of income. The table below provides the amount of gains and losses on these derivative contracts for the years ended December 31, 2010, 2009 and 2008:

(in millions) Derivatives Not Designated as Hedging Instruments	Location in Consolidated Statements of Income	For the year ended December 31, 2010	 2009	 2008
Interest-rate contracts	Other noninterest income	$ (0.4)	$ 1.0	$ (0.6)
Equity index futures	Other noninterest income	(0.1)	(0.5)	0.6
Foreign exchange contracts	International services income	21.3	19.3	20.6
Total income		$ 20.8	$ 19.8	$ 20.6

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17. Income Taxes

Income taxes (benefits) in the consolidated statements of income include the following amounts:

(in thousands)	Current	Deferred	Total
2010			
Federal	$ 12,381	$ 20,125	$ 32,506
State	(16,425)	9,974	(6,451)
Total	$ (4,044)	$ 30,099	$ 26,055
2009			
Federal	$ (1,026)	$ (4,841)	$ (5,867)
State	3,423	558	3,981
Total	$ 2,397	$ (4,283)	$ (1,886)
2008			
Federal	$ 85,009	$ (58,541)	$ 26,468
State	34,881	(19,566)	15,315
Total	$ 119,890	$ (78,107)	$ 41,783

The Company recognized income tax expense of $26.1 million in 2010, compared to a tax benefit of $1.9 million in 2009 and tax expense of $41.8 million in 2008. Income tax expense for 2010 included an income tax benefit for a $19 million tax litigation settlement with the California Franchise Tax Board, which was partially offset by expense of $4.3 million relating to revisions to certain deferred tax accounts. The effective tax rate for 2010 was equal to 16.2 percent of pretax income, compared to a tax benefit of 3.8 percent of pretax income for 2009 and effective tax rate of 27.5 percent of pretax income for 2008.

In May 2010, the Company and the California Franchise Tax Board closed its audits for the years 1998 through 2004 and settled litigation related to various refund claims and other pending matters under review. Under the terms of the settlement, the Company received $29 million in tax credits, which added approximately $19 million to the Company's net income in 2010. Additionally, in 2010, the Company recorded an adjustment to correct certain deferred tax accounts related to revisions of book and tax basis differences established in previous years related to its wealth management affiliates, low income housing investments and fixed assets. The net effect of the adjustment was a reduction of the deferred tax asset and a corresponding tax expense of $4.3 million.

The Company had income taxes receivable of $71.1 million and $69.9 million at December 31, 2010 and 2009, respectively.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17. Income Taxes (Continued)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2010 and 2009 are presented below:

	December 31,	
(in thousands)	**2010**	**2009**
Deferred tax assets:		
Allowance for credit losses	$ 44,758	$ 137,752
Federal and state carryforwards	27,355	25,767
Accrued expenses	62,426	39,371
Depreciation	3,975	3,356
Basis difference from acquired assets	20,512	
Unrealized losses (gains) on cash flow hedges	607	(2,527)
Unrealized (gains) losses on securities available-for-sale	(26,808)	4,655
Share-based compensation	22,056	19,316
Basis difference in investments	20,536	23,415
Other	4,527	849
Total gross deferred tax assets	179,944	251,954
Deferred tax liabilities:		
Core deposit and other intangibles	6,274	6,732
State income taxes	7,515	11,205
Deferred loan origination costs	7,073	7,460
Prepaid expenses	1,626	1,681
Basis difference from acquired assets		25,373
Leasing activities	26,506	17,455
Basis difference in FHLB Stock	25,120	15,959
Other	432	2,051
Total gross deferred tax liabilities	74,546	87,916
Net deferred tax assets	$ 105,398	$ 164,038

The Company has federal and state capital loss carryforwards totaling $11.6 million and $10.1 million, respectively, which are expected to expire in 2012 and federal tax credit carryforwards totaling $17.0 million which are expected to expire in 2029.

The tax benefit of deductible temporary differences and tax carry forwards are recorded as an asset to the extent that management assesses the utilization of such temporary differences and carry forwards to be "more likely than not." As of any period end, the amount of the deferred tax asset that is considered realizable could be reduced if estimates of future taxable income are reduced. Management expects to have sufficient taxable income in future years to fully realize the deferred tax assets recorded at December 31, 2010, and has determined that a valuation reserve is not required for any of its deferred tax assets.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17. Income Taxes (Continued)

Income taxes resulted in effective tax rates that differ from the statutory federal income tax rate for the following reasons:

	Percent of Pretax Income (Loss)		
	2010	**2009**	**2008**
Statutory rate	35.0%	35.0%	35.0%
Net state income tax	5.9	5.1	5.7
Tax exempt income	(6.3)	(19.7)	(5.8)
Affordable housing investments	(7.2)	(21.0)	(5.2)
FTB settlement and other adjustments	(9.5)		
All other, net	(1.7)	(3.2)	(2.2)
Effective tax provision (benefit)	16.2%	(3.8)%	27.5%

The effective tax rates differ from the applicable statutory federal and state tax rates due to various factors, including tax benefits from investments in affordable housing partnerships, tax-exempt income on municipal bonds and bank-owned life insurance and other adjustments.

The Company and its subsidiaries file a consolidated federal income tax return and also file income tax returns in various state jurisdictions. The Internal Revenue Service ("IRS") completed its audits of the Company for the tax year 2009 resulting in no material financial statement impact. The Company is currently being audited by the IRS for 2010. The Company is also currently under audit with the California Franchise Tax Board for the tax years 2005 to 2007. The potential financial statement impact, if any, resulting from the completion of these audits is expected to be minimal.

From time to time, there may be differences in opinions with respect to the tax treatment of certain transactions. If a tax position which was previously recognized on the financial statements is no longer "more likely than not" to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. As of December 31, 2010, the Company does not have any tax positions which dropped below a "more likely than not" threshold.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for 2010 and 2009 is as follows:

(in thousands) (1)	**2010**	**2009**
Balance, beginning of the year	$ 7,505	$ 9,634
Additions for tax positions of current year	612	
Additions for tax positions of prior years	1,686	2,645
Reductions for tax positions of prior years	(194)	(229)
Settlements	(5,445)	(4,545)
Balance, end of the year	$ 4,164	$ 7,505

(1) Prior period balances have been reclassified to conform with current period presentation.

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17. Income Taxes (Continued)

As of December 31, 2010 and 2009, the total tax liabilities associated with unrecognized tax benefits that, if recognized would impact the effective tax rate, is $2.7 million and $4.7 million, respectively.

The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense. The Company recognized an interest and penalties benefit of approximately $0.4 million for 2010 and interest and penalties expense of $1.2 million and $1.7 million for 2009 and 2008, respectively. The Company had approximately $2.9 million and $7.4 million of accrued interest and penalties as of December 31, 2010 and 2009, respectively. The Company is unable to estimate a range of the reasonably possible changes in the total amount of unrecognized tax benefits within the next twelve months.

Note 18. Retirement Plans

The Company has a profit-sharing retirement plan with an Internal Revenue Code Section 401(k) feature covering eligible employees. Employer contributions are made annually into a trust fund and are allocated to the participants based on their salaries. The profit sharing contribution requirement is based on a percentage of annual operating income subject to a percentage of salary cap. Eligible employees may contribute up to 50 percent of their salary to the 401(k) plan, but not more than the maximum allowed under Internal Revenue Service regulations. The Company matches 50 percent of the first 6 percent of covered compensation. The Company recorded total profit sharing and matching contribution expense of $13.0 million, $4.2 million and $16.2 million for 2010, 2009 and 2008, respectively.

The Company has a Supplemental Executive Retirement Plan ("SERP") for one of its executive officers. The SERP meets the definition of a pension plan under ASC Topic 960, *Plan Accounting Defined Benefit Pension Plans.* At December 31, 2010, there was a $6.2 million unfunded pension liability related to the SERP. Pension expense was $0.8 million, $0.7 million, and $0.5 million for 2010, 2009 and 2008, respectively.

There is also a SERP covering three former executives of the Pacific Bank, which the Company acquired in 2000. As of December 31, 2010, there was an unfunded pension liability for this SERP of $2.3 million. Pension expense was $0.1 million, $0.3 million and $0.2 million for 2010, 2009 and 2008, respectively.

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

Note 19. Commitments and Contingencies

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

Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, letters of credit, and financial guarantees written is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 19. Commitments and Contingencies (Continued)

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each client's creditworthiness on a case-by-case basis.

The Company had outstanding off-balance sheet loan commitments aggregating $4.52 billion and $4.68 billion at December 31, 2010 and 2009, respectively, compared to total outstanding loan balances of $13.24 billion and $14.00 billion, respectively. Substantially all of the Company's loan commitments are on a variable rate basis and are primarily comprised of real estate and commercial loan commitments. In addition, the Company had $603.8 million and $578.1 million outstanding in bankers' acceptances and letters of credit at December 31, 2010 and 2009, respectively, of which $588.9 million and $567.3 million relate to standby letters of credit. Included in standby letters of credit were $562.4 million and $544.1 million of financial guarantees as of December 31, 2010 and 2009, respectively. Substantially all fees received from the issuance of financial guarantees are deferred and amortized on a straight-line basis over the terms of the guarantee.

As of December 31, 2010, the Company had private equity fund and alternative investment commitments of $65.9 million of which $52.3 million was funded. As of December 31, 2009, the Company had private equity fund and alternative investment commitments of $68.4 million of which $51.3 million was funded. At December 31, 2010 and 2009, the Company had affordable housing fund commitments of $23.3 million and $14.1 million. These unfunded affordable housing commitments are recorded in Other liabilities in the consolidated balance sheets.

In connection with the liquidation of an investment acquired in a previous bank merger, the Company has an outstanding long-term indemnity. The maximum liability under the indemnity is $23.0 million, but the Company does not expect to make any payments of more than nominal amounts under the terms of this indemnity.

The Bank is party to a risk participation agreement with the agent bank on a swap agreement between the agent bank and a borrower. The Bank has a participation interest in the loan originated by the Agent Bank. Under the agreement, the Bank has assumed responsibility for its pro rata share of the exposure on the swap should the borrower fail to perform. The guarantee is recorded at its fair value of $0.2 million in Other liabilities on the consolidated balance sheets as of December 31, 2010.

The Company or its subsidiaries are defendants in various pending lawsuits claiming substantial amounts. Based upon present knowledge, management, including in-house counsel, does not believe that the final outcome of such lawsuits will have a material adverse effect on the Company.

Note 20. Variable Interest Entities

The Company holds ownership interests in certain special-purpose entities formed to provide affordable housing. The Company evaluates its interest in these entities to determine whether they meet the definition of a VIE and whether the Company is required to consolidate these entities. The Company is not the primary beneficiary of the affordable housing VIEs in which it holds interests and is therefore not required to consolidate these entities. The investment in these entities is initially recorded at cost, which approximates the maximum exposure to loss as a result of the Company's involvement with these unconsolidated entities. Subsequently, the carrying value is amortized over the stream of available tax credits and benefits. The Company expects to recover its investments over time, primarily through realization of federal low-income housing tax credits. The balance of the investments in these entities was $99.7 million and $93.4 million at December 31, 2010 and 2009, respectively, and is included in Affordable housing investments in the consolidated balance sheets. Unfunded commitments for affordable housing investments were $23.3 million at December 31, 2010. These unfunded commitments are recorded in Other liabilities in the consolidated balance sheets.

Of the affordable housing investments held as of December 31, 2010, the Company had a significant variable interest in four affordable housing partnerships. These interests were acquired at various times from 1998 to 2001. The Company's maximum exposure to loss as a result of its involvement with these entities is limited to the $4.9 million aggregate carrying value of these investments at December 31, 2010. There were no unfunded commitments for these affordable housing investments at December 31, 2010.

The Company also has ownership interests in several private equity investment funds that are VIEs. The Company is not a primary beneficiary and, therefore, is not required to consolidate these VIEs. The investment in these entities is carried at cost, which approximates the maximum exposure to loss as a result of the Company's involvement with these entities. The Company expects to recover its investments over time, primarily through the allocation of fund income, gains or losses on the sale of fund assets, dividends or interest income. The balance in these entities was $37.5 million and $37.4 million at December 31, 2010 and 2009, respectively, and is included in Other assets in the consolidated balance sheets. Income associated with these investments is reported in Other noninterest income in the consolidated statements of income.

In addition to the above, Convergent Wealth, a wealth management affiliate, is the administrative manager of the Barlow Long-Short Equity Fund, a hedge fund that is a VIE. Convergent Wealth is not a primary beneficiary and, therefore, is not required to consolidate this entity.

Note 21. Noncontrolling Interest

In accordance with ASC 810, the Company reports noncontrolling interest in its majority-owned affiliates as a separate component of equity in Noncontrolling interest in the consolidated balance sheets. Net income attributable to noncontrolling interest is no longer deducted to arrive at consolidated net income. Instead, consolidated net income is attributed to controlling and noncontrolling interest in the consolidated statements of income.

The Bank has certain wholly owned subsidiaries that have issued preferred stock to third-party investors. The net income and assets of these subsidiaries are eliminated in consolidation for all periods presented. The ownership interests of third-party investors are included in Noncontrolling interest in the equity section of the consolidated balance sheets. See Note 13, *Availability of Funds from Subsidiaries and Capital*, for further discussion.

In November 2009, the Company deconsolidated a wealth management affiliate and recognized a loss of $2.1 million as a result of the deconsolidation. The loss is included in Other noninterest income in the consolidated statements of income. The Company accounts for its remaining noncontrolling interest in that affiliate as an equity method investment.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 21. Noncontrolling Interest (Continued)

Redeemable Noncontrolling Interest

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

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

As of December 31, 2010, affiliate noncontrolling owners held equity interests with an estimated fair value of $45.7 million. This estimate reflects the maximum obligation to purchase equity interests in the affiliates. The events which would require the Company to purchase the equity interests may occur in the near term or over a longer period of time. The terms of the put provisions vary by agreement, but the value of the put is at the approximate fair value of the interests. The parent company carries key man life insurance policies to fund a portion of these conditional purchase obligations in the event of the death of an interest holder.

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

The following is a rollforward of redeemable noncontrolling interest for each of the periods presented:

	Year ended December 31,		
(in thousands)	**2010**	**2009**	**2008**
Balance, beginning of year	$ 51,381	$ 44,811	$ 51,561
Net income (loss)	1,779	(1,457)	2,993
Distributions to redeemable noncontrolling interest	(2,105)	(2,196)	(5,904)
Additions and redemptions, net	(6,231)	8,192	2,609
Adjustments to fair value	852	2,031	(6,448)
Balance, end of year	$ 45,676	$ 51,381	$ 44,811

Note 22. Segment Results

The Company has three reportable segments: Commercial and Private Banking, Wealth Management and Other. The factors considered in determining whether individual operating segments could be aggregated include that the operating segments: (i) offer the same products and services, (ii) offer services to the same types of clients, (iii) provide services in the same manner and

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 22. Segment Results (Continued)

(iv) operate in the same regulatory environment. The management accounting process measures the performance of the operating segments based on the Company's management structure and is not necessarily comparable with similar information for other financial services companies. If the management structures and/or the allocation process changes, allocations, transfers and assignments may change.

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

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

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

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

Exposure to market risk is managed in the Company's Treasury department. Interest rate risk is mostly removed from the Commercial and Private Banking segment and transferred to the Funding

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 22. Segment Results (Continued)

Center through a fund transfer pricing ("FTP") methodology and allocating model. The FTP model records a cost of funds or credit for funds using a combination of matched maturity funding for fixed term assets and liabilities and a blended rate for the remaining assets and liabilities with varying maturities.

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

Selected financial information for each segment is presented in the following tables. Commercial and Private Banking includes all revenue and costs from products and services utilized by clients of Commercial and Private Banking, including both revenue and costs for Wealth Management products and services. The revenues and costs associated with Wealth Management products and services that are allocated to Commercial and Private Banking for management reporting purposes are eliminated in the Other segment. The current year reflects any changes made in the process and methodology for allocations to the reportable segments. Prior period segment results have been revised to conform with the current period presentation.

	For the year ended December 31, 2010			
(in thousands)	**Commercial and Private Banking**	**Wealth Management**	**Other**	**Consolidated Company**
Earnings Summary:				
Net interest income	$ 700,598	$ 1,680	$ 28,047	$ 730,325
Provision for credit losses on loans and leases, excluding covered loans	103,000			103,000
Provision for losses on covered loans	76,218			76,218
Noninterest income	277,245	155,724	(71,594)	361,375
Depreciation and amortization	13,723	6,548	14,610	34,881
Noninterest expense	626,304	147,511	(57,366)	716,449
Income (loss) before income taxes	158,598	3,345	(791)	161,152
Provision (benefit) for income taxes	66,611	658	(41,214)	26,055
Net income	91,987	2,687	40,423	135,097
Less: Net income attributable to noncontrolling interest		1,779	2,141	3,920
Net income attributable to City National Corporation	$ 91,987	$ 908	$ 38,282	$ 131,177
Selected Average Balances:				
Loans and leases, excluding covered loans	$ 11,530,140	$ 50	$ 46,190	$ 11,576,380
Covered loans	1,940,316			1,940,316
Total assets	14,133,500	557,818	6,465,343	21,156,661
Deposits	17,289,288	47,450	531,654	17,868,392
Goodwill	318,340	161,642	1,036	481,018
Customer-relationship intangibles, net	12,557	30,608	6	43,171

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 22. Segment Results (Continued)

	For the year ended December 31, 2009			
(in thousands)	**Commercial and Private Banking**	**Wealth Management**	**Other**	**Consolidated Company**
Earnings Summary:				
Net interest income	$ 623,036	$ 2,354	$ (1,337)	$ 624,053
Provision for credit losses	285,000			285,000
Noninterest income	203,896	145,582	(57,281)	292,197
Depreciation and amortization	12,645	6,122	14,809	33,576
Noninterest expense	463,526	138,361	(54,376)	547,511
Income (loss) before income taxes	65,761	3,453	(19,051)	50,163
Provision (benefit) for income taxes	27,620	2,061	(31,567)	(1,886)
Net income	38,141	1,392	12,516	52,049
Less: Net income (loss) attributable to noncontrolling interest		(1,457)	2,167	710
Net income attributable to City National Corporation	$ 38,141	$ 2,849	$ 10,349	$ 51,339
Selected Average Balances:				
Loans and leases, excluding covered loans	$ 12,258,766	$	$ 37,853	$ 12,296,619
Covered loans	66,470			66,470
Total assets	12,502,890	575,546	4,633,059	17,711,495
Deposits	13,224,009	62,726	1,065,163	14,351,898
Goodwill	317,802	151,644		469,446
Customer-relationship intangibles, net	9,550	31,234		40,784

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 22. Segment Results (Continued)

	For the year ended December 31, 2008			
(in thousands)	Commercial and Private Banking	Wealth Management	Other	Consolidated Company
Earnings Summary:				
Net interest income	$ 628,542	$ 3,263	$ (31,909)	$ 599,896
Provision for credit losses	127,000			127,000
Noninterest income	187,569	208,670	(129,255)	266,984
Depreciation and amortization	13,388	14,079	12,472	39,939
Noninterest expense	458,871	147,230	(58,277)	547,824
Income (loss) before income taxes	216,852	50,624	(115,359)	152,117
Provision (benefit) for income taxes	91,078	18,051	(67,346)	41,783
Net income (loss)	125,774	32,573	(48,013)	110,334
Less: Net income attributable to noncontrolling interest		3,211	2,167	5,378
Net income (loss) attributable to City National Corporation	$ 125,774	$ 29,362	$ (50,180)	$ 104,956
Selected Average Balances:				
Loans and leases	$ 12,014,734	$ 60	$ 73,921	$ 12,088,715
Total assets	12,227,054	547,471	3,254,296	16,028,821
Deposits	10,872,652	65,287	961,703	11,899,642
Goodwill	318,886	136,656		455,542
Customer-relationship intangibles, net	14,315	44,240		58,555

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 23. Parent Company Only Condensed Financial Statements

Condensed Parent Company financial statements, which include transactions with subsidiaries, follow:

CONDENSED BALANCE SHEETS

	December 31,	
(in thousands)	**2010**	**2009**
Assets		
Cash	$ 19,588	$ 243,085
Securities available-for-sale	75,095	26,753
Other assets	135,136	252,133
Investment in City National Bank	2,095,608	1,910,199
Investment in non-bank subsidiaries	202,782	68,265
Total assets	$ 2,528,209	$ 2,500,435
Liabilities		
Long-term debt	$ 525,569	$ 470,675
Other liabilities	43,061	43,437
Total liabilities	568,630	514,112
Total shareholders' equity	1,959,579	1,986,323
Total liabilities and shareholders' equity	$ 2,528,209	$ 2,500,435

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 23. Parent Company Only Condensed Financial Statements (Continued)

CONDENSED STATEMENTS OF INCOME

(in thousands)	For the year ended December 31, 2010	2009	2008
Income:			
Dividends from Bank and non-bank subsidiaries	$	$ 20,016	$ 73,735
Interest and dividend income and other income	6,209	8,121	15,045
Impairment loss on securities		(10,912)	(27,397)
Loss on sale of securities	(509)	(7,632)	(2,714)
Total income	5,700	9,593	58,669
Expenses:			
Interest on other borrowings	26,567	5,551	8,970
Other expenses	4,097	6,653	5,330
Total expenses	30,664	12,204	14,300
(Loss) income before taxes and equity in undistributed income of Bank and non-bank subsidiaries	(24,964)	(2,611)	44,369
Income tax benefit	(15,942)	(16,630)	(21,531)
(Loss) income before equity in undistributed income of Bank and non-bank subsidiaries	(9,022)	14,019	65,900
Equity in undistributed income of Bank and non-bank subsidiaries	139,486	36,066	38,738
Net income	$ 130,464	$ 50,085	$ 104,638
Less: Net loss attributable to noncontrolling interest	(713)	(1,254)	(318)
Net income attributable to City National Corporation	$ 131,177	$ 51,339	$ 104,956
Less: Dividends and accretion on preferred	5,702	25,903	2,445

stock

Net income available to common shareholders	$	125,475	$	25,436	$	102,511

Table of Contents

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 23. Parent Company Only Condensed Financial Statements (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands) (1)	For the year ended December 31, 2010	2009	2008
Cash Flows From Operating Activities			
Net income	$ 130,464	$ 50,085	$ 104,638
Adjustments to net income:			
Equity in undistributed income of Bank and non-bank subsidiaries	(139,486)	(36,066)	(38,738)
Other, net	13,127	41,944	37,715
Net cash provided by operating activities	4,105	55,963	103,615
Cash Flows From Investing Activities			
Purchase of securities available-for-sale	(352,133)	(35,821)	(37,292)
Sales and paydowns of securities available-for-sale	304,694	67,442	49,347
Net advances to subsidiaries	(8,265)	(369,041)	(13,354)
Cash paid for acquisition	(6,140)		
Other, net	2,520	(3,847)	(7,688)
Net cash used in investing activities	(59,324)	(341,267)	(8,987)
Cash Flows For Financing Activities			
Net increase (decrease) in other borrowings	50,000	230,796	(4,060)
Cash dividends	(24,012)	(48,338)	(92,886)
(Redemption) issuance of preferred stock	(200,000)	(200,000)	389,867
(Repurchase) issuance of common stock warrant	(18,500)		10,133
Issuance (repurchase) of common stock		119,929	(21,694)
Proceeds from exercise of stock options	23,764	2,236	20,480
Other, net	470	237	2,905
Net cash (used in) provided by financing activities	(168,278)	104,860	304,745
Net (decrease) increase in cash and cash equivalents	(223,497)	(180,444)	399,373
Cash and cash equivalents at beginning of year	243,085	423,529	24,156
Cash and cash equivalents at end of year	$ 19,588	$ 243,085	$ 423,529

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

Note 24. Subsequent Events

On February 11, 2011, the Company acquired a branch in San Jose, California. The Company assumed $8.4 million of deposits. The acquisition did not include the branch's loan portfolio. At the issuance date of these financial statements, the Company had not completed its initial accounting for this business combination.