CITY NATIONAL CORP
Form 10-K
February 28, 2013

Use these links to rapidly review the document
TABLE OF CONTENTS
Item 15. Exhibits and Financial Statement Schedules

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, 2012

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
5.50% Non-Cumulative Perpetual Preferred Stock, Series C	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. ý

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 29, 2012, the aggregate market value of the registrant's common stock ("Common Stock") held by non-affiliates of the registrant was approximately $2,231,286,687 based on the June 29, 2012 closing sale price of Common Stock of $48.58 per share as reported on the New York Stock Exchange.

As of January 31, 2013, there were 53,865,942 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 2013 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

PART I		
Item 1.	Business	2
Item 1A.	Risk Factors	15
Item 1B.	Unresolved Staff Comments	23
Item 2.	Properties	23
Item 3.	Legal Proceedings	23
Item 4.	Mine Safety Disclosures	23
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	24
Item 6.	Selected Financial Data	25
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	25
Item 8.	Financial Statements and Supplementary Data	25
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	25
Item 9A.	Controls and Procedures	25
Item 9B.	Other Information	25
PART III		
Item 10.	Directors and Officers of the Registrant	26
Item 11.	Executive Compensation	26
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	26
Item 13.	Certain Relationships and Related Transactions	26
Item 14.	Principal Accountant Fees and Services	26
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	27

Table of Contents

PART I

Item 1. Business

Overview

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 operates through 78 offices, including 16 full-service regional centers, in Southern California, the San Francisco Bay area, Nevada, New York City, Nashville, Tennessee and Atlanta, Georgia. As of December 31, 2012, the Company had five consolidated asset management affiliates in which it held a majority ownership interest. The Company also had one unconsolidated subsidiary, Business Bancorp Capital Trust I. At year-end 2012, the Company had consolidated total assets of $28.62 billion, total loan balances of $15.85 billion, total deposits of $23.50 billion, and assets under management or administration of $56.68 billion. The Company provides comprehensive financial solutions to affluent individuals, entrepreneurs, professionals, their businesses and their families. The Company provides a premier banking and financial experience through an uncommon dedication to extraordinary service, proactive advice and complete financial solutions. At December 31, 2012, the Company had 3,472 full-time equivalent employees.

Additional information regarding our business and our subsidiaries, as well as regarding our acquisitions, is included in the information set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and Note 3, *Business Combinations,* of the Notes to Consolidated Financial Statements, and is incorporated herein by reference.

Our website is www.cnb.com and the investor relations section of our website may be reached through https://www.cnb.com/investor-relations/investor-kit.asp. We make available free of charge, on or through the investor relations links on our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, as well as any amendment to those reports, and proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Information about our Board of Directors (the "Board") and its committees and our corporate governance policies and practices is available on the Corporate Governance section of the Investor Relations page of our web site. Our SEC filings are also available through the SEC's website at www.sec.gov.

Business Segments

The Company has three reportable segments, Commercial and Private Banking, Wealth Management and Other. The Commercial and Private Banking segment provides banking products and services, including commercial and mortgage lending, lines of credit, equipment lease financing, deposits, cash management services, international trade finance and letters of credit. 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 MD&A section of this report.

The Company's principal client base consists of small to mid-sized businesses, entrepreneurs, professionals, and affluent individuals. The Company serves its clients through relationship banking.

Table of Contents

The Company'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 Company 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.

The Company also advises and makes available mutual funds under the name of CNI Charter Funds and Rochdale Investment Trust. The Bank's wealth management division and the Corporation's asset management subsidiaries 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.

Competition

There is significant competition among commercial banks and other financial institutions in the Company's market areas. California, New York, Nevada, Tennessee and Georgia are highly competitive environments for banks and other financial organizations that provide private and business banking and wealth management services. The Company 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 specialized 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

Table of Contents

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. Energy and commodity prices are additional primary sources of risk and volatility. 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, New York, Tennessee and Georgia, and in the United States as a whole. While the United States is showing signs of recovery from the recent economic crisis, it is not certain that conditions will continue to improve and could worsen. Unemployment levels are improving but remain high. Uncertainty regarding continued economic improvement could lead to decreased consumer confidence and spending which could have a negative impact on our clients' businesses and in turn on our business. The Company can be negatively affected by changes in the financial performance of our clients and borrowers including through decreased loan utilization rates, increased delinquencies and defaults and changes to our customers' ability to meet certain credit obligations. While real estate values have shown signs of improvement, declines in commercial real estate and housing values could have a negative impact on the value of collateral securing loans. In addition, unresolved federal budget negotiations and the level of United States debt may have a destabilizing effect on financial markets. Europe and other global economies face continued economic stresses including increasing debt levels, that could impact the capital markets generally, including the Company's ability to access capital and the trading price of the Company's securities.

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. See Item 1A Risk Factors.

The Company's business and earnings are further 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. These regulations are intended primarily for the protection of depositors, the deposit insurance fund, and the banking system as a whole, and not for the

Table of Contents

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 SEC and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, 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 of its operations by the Office of the Comptroller of the Currency ("OCC"), its primary regulator, and also by the Federal Reserve, the Consumer Financial Protection Bureau ("CFPB") and the Federal Depository Insurance Corporation ("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, by the SEC under the Investment Advisors Act of 1940. The Company's registered broker-dealers are regulated by the SEC, the Financial Industry Regulatory Authority and state securities regulators.

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 1 or 2 (on a scale of 5, with 1 being the highest rating) 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 CRA. (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"), bank holding companies, as well as their depository institution subsidiaries, are also required to be "well capitalized" and "well managed" in

Table of Contents

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, depending on which requirement they fail to meet, may not be able to undertake new activities or acquisitions that are financial in nature, or may lose the 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 CRA (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 activities. Under the Dodd-Frank Act, bank regulatory authorities 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 satisfy 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

Table of Contents

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.

The Dodd-Frank Act

The Dodd-Frank Act, which was signed into law on July 21, 2010, has had, and will continue to have, a broad impact on the financial services industry, imposing significant regulatory and compliance changes, increased capital, leverage and liquidity requirements and numerous other provisions designed to improve supervision and oversight of the financial services sector. 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 significantly restructures the financial services regulatory scheme, including through the expansion of the scope of oversight responsibility of certain federal agencies and through the creation of new oversight bodies. For example, the Dodd-Frank Act established the 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 and non-bank financial institutions, including the authority to prohibit "unfair, deceptive or abusive acts and practices." The CFPB has examination and enforcement authority over all banking and non-banking financial organizations with more than $10 billion in assets. The Dodd-Frank Act also created the Financial Stability Oversight Council which is charged with identifying risks to financial stability that could arise from the material financial distress or failure, or ongoing activities, of nonbank financial companies and which could recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity. 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 state and federal consumer protection laws.

The Dodd-Frank Act impacts, among other things, the way financial services companies do business, the cost of doing business and capital standards applicable to financial services companies. For example, the Dodd-Frank Act requires that all insured depository institutions and their holding companies be subject to the same generally applicable risk-based capital and leverage rules, which led to the removal of trust preferred securities as a permitted component of a holding company's Tier 1 capital and other comprehensive revisions to regulatory capital rules, including the Basel III capital standards discussed further below. Provisions in the legislation that require revisions to the capital

Table of Contents

requirements of the Corporation and the Bank could require the Corporation and the Bank to seek other sources of capital in the future.

The Dodd-Frank Act also expands the base for FDIC insurance assessments. Assessments are now 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 increases the minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35%. The Dodd-Frank Act 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. The Dodd-Frank Act also provides for amendments to the Electronic Fund Transfer Act ("EFTA") which have resulted in rules limiting debit-card interchange fees and stringent requirements regarding remittance transfers to locations outside the United States. 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. Changes regarding remittance transfers to locations outside the United States may increase the costs associated with these services and discourage the provision of these services.

Other significant provisions of the Dodd-Frank Act include:

- 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 activities in the institution itself;

- Establishment of fiduciary duties 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;

- Prohibitions on 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;

- 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

- Corporate governance requirements regarding executive compensation and related disclosure that apply to all public companies, not just financial institutions.

The increased regulatory burden on the financial services industry, 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 services industry more generally.

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

Table of Contents

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.

Fair Lending Laws

The enforcement of Fair Lending laws has been an increasing area of focus for regulators, including the OCC and CFPB. Fair Lending laws related to extensions of credit are included in The Equal Credit Opportunity Act of 1974 and the Fair Housing Act of 1968 which prohibit discrimination in residential real estate and credit transactions based on race, color, national origin, sex, marital status, familial status, religion, age, physical ability, the fact that all or part of the applicant's income derives from a public assistance program or the fact that the applicant has exercised any right under the Consumer Credit Protection Act. Under the Fair Lending laws, lenders can also be liable for policies which have a disparate impact on, or result in disparate treatment of, a protected class of applicants or borrowers. Lenders are required to have a Fair Lending program that is of sufficient scope to monitor the inherent Fair Lending risk of the institution and that appropriately remediates any issues which are identified. Generally, regulatory agencies are required to refer fair lending violations to the Department of Justice for investigation. In December 2012, The Department of Justice and CFPB entered into a Memorandum of Understanding under which the agencies have agreed to share information, coordinate investigations and have generally committed to strengthen their coordination efforts. Failure of a financial institution to maintain and implement an adequate Fair Lending program, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Table of Contents

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 zero percent for asset categories with low credit risk, such as cash and certain Treasury securities, to 100 percent for asset categories with relatively high credit risk, such as commercial loans. In total, these balances comprise the company's risk-weighted assets ("RWA") which are the basis for important regulatory capital ratios. Bank holding companies and national banks such as the Corporation and the Bank are currently required to maintain Tier 1 and Total capital equal to at least 4 percent and 8 percent, respectively, of their total RWA before they may be classified as "adequately capitalized." Banking organizations with Tier 1 and Total capital ratios above 6 percent and 10 percent, respectively, are eligible to be classified as "well capitalized" by the regulatory agencies. The risk-based capital rules reflect the credit-risk of the company's activities, not other risks such as interest rate, liquidity, business or operational risks.

Table of Contents

During volatile or turbulent market conditions, bank regulators may set higher capital requirements for individual banks or for categories of banks. In order to maintain a capital reserve sufficient to support normal banking operations during such turbulent episodes, the Company uses internal capital adequacy assessment and stress testing procedures to establish Board approved guidelines for capital management.

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 banks with low risk balance sheets, strong liquidity, earnings and capital, and the lowest level of supervisory concern, the minimum leverage ratio is 3 percent. For all other banks, the minimum leverage ratio is 4 percent. These minimum standards are necessary for a bank to be classified as "adequately capitalized." Banks with leverage capital ratios of 5 percent or more may be classified as "well capitalized." As with the risk-based capital requirements, banks 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, 2012, 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 for the Bank. See "Management's Discussion and Analysis Balance Sheet Analysis Capital" of this report.

The Federal Deposit Insurance Corporation Improvement 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 became "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 current 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 ("BCBS"). The BCBS 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 BCBS, 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

Table of Contents

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 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. At this time, Basel II does not apply to either the Corporation or the Bank.

In December 2010, the BCBS published the final version of the Capital Accord commonly referred to as Basel III. A key goal of the Basel III agreement is to strengthen the capital resources of banking organizations during normal and challenging business environments. The standards established in the Capital Accord will be implemented by the governing regulatory agencies of the participating nations. These standards must also be integrated with the safety and soundness standards required under the Dodd-Frank Act. In June 2012, United States banking regulators issued proposed standards combining Basel III and Dodd-Frank Act requirements. The proposed requirements will be phased in over several years, and will replace the previous regulatory model established under the Basel I Accord. Important elements of the Basel III standards include the following:

- Increase minimum capital requirements;
- Raise the quality of capital so banks are better able to absorb losses;
- Implement a leverage ratio concept for international banks and U.S. bank holding companies;
- Establish a specific capital conservation buffer; and
- Provide a more uniform supervisory standard for U.S financial institution regulatory agencies.

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, or how the requirements of the Dodd-Frank Act will be reconciled with those of Basel III.

Premiums for Deposit Insurance

The Bank's deposits are insured to applicable limits by the FDIC, which insurance is funded through assessments on member banks such as the Bank. The Emergency Economic Stabilization Act of 2008 temporarily raised the maximum standard deposit insurance amount to $250,000. In October 2008, the FDIC established a Temporary Liquidity Guarantee Program under which the FDIC fully insured all funds in non-interest-bearing transaction accounts until December 31, 2009, which was later extended to 2010 (the "Transaction Account Guarantee Program") and guaranteed certain senior unsecured debt of insured depository institutions or their qualified holding companies issued between October 14, 2008 and October 31, 2009 with the FDIC guarantee expiring December 31, 2012 (the "Debt Guarantee Program"). The Bank did not participate in the Debt Guarantee Program. The Bank did participate in the Transaction Account Guarantee Program until July 1, 2010. Thereafter, the Dodd-Frank Act Deposit Insurance Provision permanently increased the maximum deposit insurance amount from $100,000 to $250,000 effective December 31, 2010 and provided unlimited FDIC deposit insurance on non-interest bearing transactions accounts for all FDIC-insured banks effective from December 31, 2010, through December 31, 2012. The provision authorizing unlimited deposit insurance terminated on December 31, 2012, and was not extended. The expiration of the Program did not have a significant impact to the Company's deposit levels and the Company maintains significant readily available liquidity resources to fund any further outflows. While the Company has experienced deposit outflows since December 31, 2012, this is primarily attributed to seasonal cash flow variability of the Bank's clients.

Table of Contents

In June 2009, 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 assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012 on December 30, 2009. 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 expanded 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. In 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 base 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, was 0.0066% for calendar year 2012 and have been set at 0.0064% for the first quarter of 2013. These assessments will continue until the FICO bonds mature in 2017.

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, Nevada, Tennessee and Georgia.

Community Reinvestment Act

Under the Community Reinvestment Act of 1977, 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

Table of Contents

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

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. The Dodd-Frank Act has added additional corporate governance, executive compensation and disclosure requirements, including mandatory advisory votes on executive compensation, expanded disclosures for public companies soliciting proxies and additional 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 NYSE 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, 2013, 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)	62	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	89	Chairman of the Board, City National Corporation
Christopher J. Carey	58	Executive Vice President and Chief Financial Officer, City National Corporation and City National Bank since July 2004.
Christopher J. Warmuth	58	Executive Vice President, City National Corporation and President, City National Bank since May 2005
Michael B. Cahill	59	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	52	Executive Vice President and Chief Credit Officer, City National Bank since February 2006
Olga Tsokova	39	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.

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

Table of Contents

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 economic, political and industry 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; rising 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 the United States or other countries or regions could adversely impact our business by increasing volatility in financial markets generally.

The United States in recent years has 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 continue to experience financial difficulty. While reflecting some improvement, unemployment levels remain elevated. There can be no assurance that these conditions will continue to improve and these conditions could worsen. The resulting economic pressure on consumers and uncertainty regarding continuing economic improvement may result in further changes in consumer spending, borrowing and savings habits which could adversely affect our business, financial condition and results of operations. In addition, unresolved federal budget negotiations and the level of United States debt may have a destabilizing effect on financial markets. Europe and other global economies face continued economic stresses, including increasing debt levels, that could impact the capital markets generally, including the trading price of securities, such as our common stock, that do not have substantial direct exposure to foreign economies.

Our financial performance is impacted by the business conditions in the markets where we operate and in the United States generally. The demand for credit and other banking products and the ability of borrowers to pay interest on and repay principal on outstanding loans and the value of collateral securing those loans is driven by economic conditions in the markets where our customers operate. Our business can be negatively affected by changes in the financial performance and/or condition of our borrowers, including through decreased loan utilization rates, increased delinquencies and defaults and changes to our customers' ability to meet certain credit obligations. Declines in real estate values in the markets in which we operate, including California, Nevada and New York, have impacted our results of operations. While there have been some signs of improvement, further declines in real estate values in the markets where we operate could lead to delinquencies and credit quality issues in our residential mortgage and home-equity loan portfolios which could have a negative effect on our results of operations. In addition, negative economic conditions coupled with elevated unemployment and reduced consumer spending could result in higher credit losses in our commercial loan, commercial real estate loan and commercial real estate construction loan portfolios.

The Dodd-Frank Act and related legislation regarding the financial services industry may have a significant adverse effect on our operations. The Dodd-Frank Act, which was signed into law on July 21, 2010, has had, and will continue to have, a broad impact on the financial services industry, imposing significant regulatory and compliance changes, increased capital, leverage and liquidity requirements and numerous other provisions designed to improve supervision and oversight of the financial services sector. 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

Table of Contents

the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Many of the provisions of the Dodd-Frank Act, and related legislation and rulemaking, directly affect our business, including, but not limited to, the following:

- Establishment of the Financial Stability Oversight Council ("FSOC") which is charged with identifying risks to financial stability that could arise from the material financial distress or failure, or ongoing activities, of nonbank financial companies. The FSOC may recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;

- Provisions requiring that all insured depository institutions and their holding companies be subject to the same generally applicable risk-based capital and leverage rules which led to the removal of trust preferred securities as a permitted component of a holding company's Tier 1 capital and other comprehensive revisions to regulatory capital rules, including the Basel III capital standards discussed further below;

- Changes to the FDIC assessment for depository institutions with assets of $10 billion or more, such as the Bank, and increases to 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 the CFPB with broad authority to implement new consumer protection regulations and, for banking organizations with $10 billion or more in assets, to examine and enforce compliance with federal consumer laws;

- Amendments to the EFTA which have resulted in rules limiting debit-card interchange fees and stringent requirements regarding remittance transfers to locations outside the United States; 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.

Most 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 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, the interpretation of those rules and regulations, and changes in federal monetary policy could materially affect our business. In addition to the Dodd-Frank Act discussed above, the banking industry is subject to extensive federal and state regulation. The implementation of new laws or changes in existing laws, including changes in the interpretations of such laws and related rules and regulations by regulators, courts or others, could have a negative impact on our business. Federal and state regulatory agencies also frequently adopt changes

Table of Contents

to their regulations or change the manner in which existing regulations are applied. Parts of our business are also subject to federal and state securities laws and regulations. Significant changes in these laws and regulations could also affect our business. 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.

Our business is also impacted by federal monetary policy, particularly as implemented through the Federal Reserve System. Federal monetary policy 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. Changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System could have a negative impact on our business and results of operations.

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. 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.

We are also subject to risk-based capital guidelines implemented by the U.S. federal bank regulatory agencies based on the 1988 capital accord of the BCBS, referred to as Basel I. For several years, the U.S. bank regulators have been preparing to implement a new framework for risk-based capital adequacy developed by BCBS, referred to as Basel II. In December 2010, the BCBS published the final version of the Capital Accord commonly referred to as Basel III. A key goal of the Basel III agreement is to strengthen the capital resources of banking organizations during normal and challenging business environments. The standards established in the Capital Accord will be implemented by the governing regulatory agencies of the participating nations. These standards must also be integrated with the safety and soundness standards required under the Dodd-Frank Act. In June 2012, United States banking regulators issued proposed standards combining Basel III and Dodd-Frank Act requirements. The proposed requirements will be phased in over several years, and will replace the previous regulatory model established under the Basel I Accord. Important elements of the Basel III standards include the following:

- Increase minimum capital requirements;
- Raise the quality of capital so banks are better able to absorb losses;
- Implement a leverage ratio concept for international banks and U.S. bank holding companies;
- Establish a specific capital conservation buffer; and
- Provide a more uniform supervisory standard for U.S financial institution regulatory agencies.

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, or how the requirements of the Dodd-Frank Act will be reconciled with those of Basel III. Stricter capital requirements and capital

ratios 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. See the section captioned "Capital Adequacy and Prompt Corrective Action" in Item 1. Business located elsewhere in this report for further discussion.

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. These rates are highly sensitive to many factors that are beyond our control, such as inflation, recession, and unemployment. In general, the greater 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. Changes in inflation, interest rates and market liquidity may also impact our margins and funding sources.

Our results of operations could be adversely affected if we were 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 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 negative effect on results of operations. We monitor the value of collateral, such as real estate, for loans made by us. 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 and lease losses.

We may experience further impairments of loans covered under loss-sharing agreements with the FDIC that could negatively impact our earnings. Covered loans consist of acquired loans that are covered under loss-sharing agreements with the FDIC. 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. To the extent that incorrect assumptions in the value of the covered loans result in greater than anticipated losses in the covered

loan portfolio exceeding the losses covered by the loss-sharing agreements with the FDIC, it could have a negative effect on our results of operations.

Disruptions to our information systems and security breaches could adversely affect our business and reputation. In the ordinary course of business, we rely on electronic communications and information systems to conduct our businesses and to store sensitive data, including financial information regarding our customers. The integrity of information systems are under significant threat from cyber attacks by third parties, including through coordinated attacks sponsored by foreign nations to disrupt business operations and other compromises to data and systems for political or criminal purposes. We employ an in-depth defense approach that leverages people, processes and technology to manage and maintain cyber security controls. We have an experienced team of Information Security professionals, the latest automated tools, and Board-approved policies, to secure our digital environment. We employ a variety of preventative and detective tools to monitor, block, and alert on any suspicious activity, as well as to report on any suspected advanced persistent threats. We have not experienced any significant compromises due to cyber security attacks. To date there have been no security breaches of our systems, no virus outbreaks, no compromise of data, and no material financial losses related to cyber attacks. Although rogue viruses on occasion do penetrate the external automated tools, they have been caught timely by internal filters. The historical impact of such attacks on our operations, expenses and risks has been very low, with no incidents experienced in recent years that pose any significant risks to the integrity of confidential company or client information. Although to date we have not experienced material financial losses related to these risks, there can be no assurance that we will not suffer such losses in the future. Any such losses can adversely affect our financial condition or results of operations, and could expose us to reputation risk, the loss of client business, as well as additional regulatory scrutiny, possible litigation, and related financial liability. These risks also include possible business interruption. Cyber security risks may also occur with our third party technology service providers, and may interfere with their ability to fulfill their contractual obligations to us, with attendant potential for financial loss or liability that could adversely affect our financial condition or results of operations. Risks and exposures related to cyber security attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our clients.

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 on our earnings.

We may experience 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 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 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 services companies and other companies that offer banking and wealth management services could negatively impact our business. Increased competition in our markets may result in lower loan levels, a reduction in deposits and/or assets under management, increased costs and may limit our ability to increase market share. 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. A substantial and permanent loss of either client accounts or assets under management at our wealth management affiliates or our wealth management division could have a negative impact on our results of operations. 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, retain and motivate 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 could have a negative impact on our business. 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 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 that could affect our corporate taxes. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations.

Businesses we acquire may not perform as expected which could have a negative impact on our business and results of operations. 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

Table of Contents

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 the businesses we acquire do not perform as expected or we are not able to integrate successfully past or future acquisitions, there is a risk that results of operations could be adversely affected. We also expand our operations through de novo branching efforts. If our de novo branching efforts are not successful in driving new business, it could increase our operation costs and have a negative impact on our business.

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.

Our business and financial results could be impacted materially by adverse results in legal proceedings and governmental investigations and inquiries. Aspects of our business involve risk of legal liability. We have been named or threatened to be named as defendants in various legal proceedings arising from our business activities. In addition, we may be the subject of governmental investigations and other forms of regulatory inquiry from time to time. The results of these legal proceedings and governmental investigations and inquiries could lead to significant monetary damages or penalties, restrictions on the way in which we conduct our business, or reputational harm.

Although we establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, we do not have accruals for all legal proceedings where we face a risk of loss. In addition, amounts accrued may not represent the ultimate loss to us from the legal proceedings in question. Thus, our ultimate losses may be higher or lower, and possibly significantly so, than the amounts accrued for legal loss contingencies.

Our business and financial performance could be adversely affected, directly or indirectly, by disasters, by terrorist activities or by international hostilities. Neither the occurrence nor the potential impact of disasters, terrorist activities and international hostilities can be predicted. However, these occurrences could impact us directly as a result of damage to our facilities or by preventing us from conducting our business in the ordinary course, or indirectly as a result of their impact on our borrowers, the value of collateral, depositors, other customers, suppliers or other counterparties. We could also suffer adverse consequences to the extent that disasters, terrorist activities or international hostilities affect the financial markets or the economy in general or in any particular region. For example, a significant earthquake could impact us directly by disrupting our business operations or could lead to an increase in delinquencies, bankruptcies or defaults that could result in our experiencing higher levels of nonperforming assets, net charge-offs and provisions for credit losses.

Our ability to mitigate the adverse consequences of such occurrences is in part dependent on the quality of our resiliency planning, and our ability, if any, to anticipate the nature of any such event that occurs. The adverse impact of disasters or terrorist activities or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon but have no control over.

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 2012 fiscal year and that remain unresolved.

Item 2. Properties

The Bank leases approximately 410,000 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, 2012, 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 108 other locations, comprised of 73 banking offices and 35 other offices as of December 31, 2012. Other offices include locations that provide wealth management, leasing and general operations support.

The non-owned banking offices and other properties are leased by the Company. Total annual net rental payments (exclusive of operating charges and real property taxes) are approximately $39 million, with lease expiration dates for office facilities ranging from 2013 to 2039, exclusive of renewal options.

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, 2012, 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. Mine Safety Disclosures

Not applicable.

Table of Contents

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 NYSE 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.

On November 15, 2012, the Corporation's Board of Directors declared an accelerated quarterly cash dividend of $0.25 per common share and a special cash dividend of $0.25 per common share. The accelerated and special dividends were payable on December 18, 2012, in addition to the regular $0.25 per common share dividend declared on October 18, 2012 and paid on November 21, 2012. The accelerated quarterly cash dividend represents the dividend that the Corporation would have otherwise declared during the first quarter of 2013.

Quarter Ended	High	Low	Dividends Declared
2012			
March 31	$ 54.44	$ 45.39	$ 0.25
June 30	54.63	46.39	0.25
September 30	54.48	48.20	0.25
December 31	52.60	47.27	0.75(1)
2011			
March 31	$ 62.90	$ 55.65	$ 0.20
June 30	58.75	52.02	0.20
September 30	55.54	37.76	0.20
December 31	45.10	36.01	0.20

(1) On November 15, 2012, the Corporation's Board of Directors declared an accelerated quarterly cash dividend of $0.25 per common share and a special cash dividend of $0.25 per common share. The accelerated and special dividends were payable on December 18, 2012, in addition to the regular $0.25 per common share dividend declared on October 18, 2012 and paid on November 21, 2012. The accelerated quarterly cash dividend represents the dividend that the Corporation would have otherwise declared during the first quarter of 2013.

As of January 31, 2013, the closing price of the Corporation's stock was $52.96 per share. As of that date, there were 1,607 holders of record of the Corporation's common stock.

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, 2012. As of December 31, 2012, there were 1,140,400 shares remaining to be purchased.

The information required by this item regarding purchases by the Company during the quarter ended December 31, 2012 of equity securities that are registered by the Company pursuant to

Table of Contents

Section 12 of the Exchange Act appears under Note 12 of the Notes to Consolidated Financial Statements and is incorporated herein by reference.

Item 6. Selected Financial Data

The information required by this item appears on page 40 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 41 through 105, under the caption "Management's Discussion and Analysis," and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by this item appears on pages 69 through 74, 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 105 under the captions "2012 Quarterly Operating Results" and "2011 Quarterly Operating Results," and on page A-4 through A-90 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 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 last fiscal quarter that has materially affected, or is 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, Executive Officers and Corporate Governance

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 2013 Annual Meeting of Stockholders (the "2013 Proxy Statement"), and such information either shall be (i) deemed to be incorporated herein by reference from that portion of the 2013 Proxy Statement, if filed with the SEC 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 SEC 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 2013 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2013 Proxy Statement, if filed with the SEC 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 SEC 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 information required by this item will appear in the 2013 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2013 Proxy Statement, if filed with the SEC 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 SEC on Form 10-K/A not later than the end of such 120 day period.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by this item will appear in the 2013 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2013 Proxy Statement, if filed with the SEC 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 SEC 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 2013 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2013 Proxy Statement, if filed with the SEC 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 SEC on Form 10-K/A not later than the end of such 120 day period.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. Financial Statements:

Management's Report on Internal Control Over Financial Reporting	A-1
Report of Independent Registered Public Accounting Firm	A-2
Report of Independent Registered Public Accounting Firm	A-3
Consolidated Balance Sheets at December 31, 2012 and 2011	A-4
Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2012	A-5
Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2012	A-6
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2012	A-7
Consolidated Statements of Changes in Equity for each of the years in the three-year period ended December 31, 2012	A-8
Notes to Consolidated Financial Statements	A-9

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 (File No. 001-10521).
3.1	Restated Certificate of Incorporation.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-10521)
3.2	Certificate of Amendment of Restated Certificate of Incorporation.	Filed herewith.
3.3	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 for the year ended December 31, 2009 (File No. 001-10521).
3.4	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 (File No. 001-10521).

Table of Contents

3.5	Certificate of Designations for 5.50% Non-Cumulative Perpetual Preferred Stock, Series C.	Incorporated by reference from the Registrant's Current Report on Form 8-K filed November 13, 2012 (File No. 001-10521).
3.6	Bylaws, as amended to date.	Incorporated by reference from the Registrant's Current Report on Form 8-K filed May 18, 2012 (File No. 001-10521).
4.1	Specimen Common Stock Certificate for Registrant.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-10521).
4.2	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 (File No. 001-10521).
4.3	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 (File No. 001-10521).
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 (File No. 001-10521).
10.2*	Amendment to Employment Agreement dated as of May 15, 2005 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, 2010 (File No. 001-10521).
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 (File No. 001-10521).
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 (File No. 001-10521).

Table of Contents

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 (File No. 001-10521).
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 (File No. 001-10521).
10.7*	Sixth Amendment to Employment Agreement dated as of February 9, 2010, 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, 2010 (File No. 001-10521).
10.8*	Seventh Amendment to Employment Agreement dated as of February 17, 2011 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, 2010 (File No. 001-10521).
10.9*	Eighth Amendment to Employment Agreement dated as of February 13, 2012 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, 2011 (File No. 001-10521).
10.10*	Ninth Amendment to Employment Agreement dated as of January 28, 2013 by and between Bram Goldsmith, Registrant and City National Bank.	Filed herewith.
10.11*	Amended and Restated Employment Agreement between the Company and Russell Goldsmith dated June 24, 2010.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-10521).
10.12*	Amendment to Amended and Restated Employment Agreement between the Company and Russell Goldsmith dated March 14, 2012.	Incorporated by reference from the Registrant's Current Report on Form 8-K filed March 16, 2012 (File No. 001-10521).
10.13*	1995 Omnibus Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-10521).

Table of Contents

10.14*	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 (File No. 001-10521).
10.15*	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 (File No. 001-10521).
10.16*	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 (File No. 001-10521).
10.17*	1999 Omnibus Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-10521).
10.18*	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 (File No. 001-10521).
10.19*	First Amendment to 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, 2010 (File No. 001-10521).
10.20*	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 (File No. 001-10521).
10.21*	City National Corporation 2011 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 20, 2011 (File No. 001-10521).
10.22*	Amended and Restated City National Corporation 2008 Omnibus Plan.	Incorporated by reference from Appendix A to the Registrant's Proxy Statement filed with the SEC for the Annual Meeting of Stockholders held on May 9, 2012 (File No. 001-10521).

Table of Contents

10.23*	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, 2010 (File No. 001-10521).
10.24*	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 (File No. 001-10521).
10.25*	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 (File No. 001-10521).
10.26*	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 (File No. 001-10521).
10.27*	Amendment Number 1 to 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, 2011 (File No. 001-10521).
10.28*	Amendment Number 2 to 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, 2011 (File No. 001-10521).
10.29*	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 (File No. 001-10521).
10.30*	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 (File No. 001-10521).
10.31*	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, 2010 (File No. 001-10521).

Table of Contents

10.32*	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 (File No. 001-10521).
10.33*	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 (File No. 001-10521).
10.34*	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 (File No. 001-10521).
10.35*	Amendment No. 1 to 2000 City National Bank Director Deferred Compensation Plan (Amended and Restated for Plan Years 2004/5 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, 2011 (File No. 001-10521).
10.36*	Amendment No. 2 to 2000 City National Bank Director Deferred Compensation Plan (Amended and Restated for Plan Years 2004/5 and Later Effective January 1, 2009).	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-10521).
10.37*	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 (File No. 001-10521).
10.38*	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 (File No. 001-10521).
10.39*	City National Corporation 2001 Stock Option Plan.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-10521).
10.40*	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 (File No. 001-10521).

Table of Contents

10.41*	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 (File No. 001-10521).
10.42*	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 (File No. 001-10521).
10.43*	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 (File No. 001-10521).
10.44*	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 (File No. 001-10521).
10.45*	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 Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-10521).
10.46*	Form of Restricted Stock Award Agreement Under the City National Corporation Amended and Restated 2002 Omnibus Plan (2006 and later grants).	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-10521).
10.47*	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 Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-10521).
10.48*	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, 2011 (File No. 001-10521).
10.49*	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 March 31, 2011 (File No. 001-10521).

Table of Contents

10.50*	Form of Restricted Stock Unit 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 March 31, 2011 (File No. 001-10521).
10.51*	Form of 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 (File No. 001-10521).
10.52*	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 (File No. 001-10521).
10.53*	Form of Restricted Stock Unit Award Agreement (Cash Only) 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 March 31, 2012 (File No. 001-10521).
10.54*	Form of Restricted Stock Unit Award Agreement (Cash Only) 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 March 31, 2012 (File No. 001-10521).
10.55*	Form of Performance Unit Award Agreement Under the City National Corporation 2008 Omnibus Plan (EPS).	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-10521).
10.56*	Form of Performance Unit Award Agreement Addendum Under the City National Corporation 2008 Omnibus Plan (EPS).	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-10521).
10.57*	Summary Brian Fitzmaurice.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-10521).
10.58	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 (File No. 001-10521).

12	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividend Requirements.	Filed herewith.
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.
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, 2013

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, 2013
/s/ CHRISTOPHER J. CAREY Christopher J. Carey (Principal Financial Officer)	Executive Vice President and Chief Financial Officer	February 28, 2013
/s/ OLGA TSOKOVA Olga Tsokova (Principal Accounting Officer)	Senior Vice President and Chief Accounting Officer	February 28, 2013
/s/ BRAM GOLDSMITH Bram Goldsmith	Chairman of the Board/Director	February 28, 2013
/s/ CHRISTOPHER J. WARMUTH Christopher J. Warmuth	Executive Vice President/Director	February 28, 2013
/s/ RICHARD L. BLOCH Richard L. Bloch	Director	February 28, 2013

Table of Contents

Signature	Title	Date
/s/ KENNETH L. COLEMAN Kenneth L. Coleman	Director	February 28, 2013
/s/ ASHOK ISRANI Ashok Israni	Director	February 28, 2013
/s/ RONALD L. OLSON Ronald L. Olson	Director	February 28, 2013
/s/ BRUCE ROSENBLUM Bruce Rosenblum	Director	February 28, 2013
/s/ PETER M. THOMAS Peter M. Thomas	Director	February 28, 2013
/s/ ROBERT H. TUTTLE Robert H. Tuttle	Director	February 28, 2013
/s/ KENNETH ZIFFREN Kenneth Ziffren	Director	February 28, 2013

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 and the impact they have on the Company and its customers, including changes in consumer spending, borrowing and savings habits; (2) the impact on financial markets and the economy of the level of U.S. and European debt; (3) the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System; (4) continued delay in the pace of economic recovery and continued stagnant or decreasing employment levels; (5) the effect of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the 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; (6) the impact of revised capital requirements under Basel III; (7) significant changes in applicable laws and regulations, including those concerning taxes, banking and securities; (8) volatility in the municipal bond market; (9) changes in the level of nonperforming assets, charge-offs, other real estate owned and provision expense; (10) 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; (11) changes in inflation, interest rates, and market liquidity which may impact interest margins and impact funding sources; (12) the Company's ability to attract new employees and retain and motivate existing employees; (13) increased competition in the Company's markets and our ability to increase market share and control expenses; (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) soundness of other financial institutions which could adversely affect the Company; (17) protracted labor disputes in the Company's markets; (18) the impact of natural disasters, terrorist activities or international hostilities on the operations of our business or the value of collateral; (19) the effect of acquisitions and integration of acquired businesses and de novo branching efforts; (20) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; (21) the impact of cyber security attacks or other disruptions to the Company's information systems and any resulting compromise of data or disruptions in service; and (22) 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)	2012	2011	Percent change
FOR THE YEAR			
Net income available to common shareholders	$ 208,049	$ 172,421	21%
Net income per common share, basic	3.85	3.24	19
Net income per common share, diluted	3.83	3.21	19
Dividends per common share	1.50	0.80	88
AT YEAR END			
Assets	$ 28,618,492	$ 23,666,291	21
Securities	10,719,451	8,101,556	32
Loans and leases, excluding covered loans	14,818,295	12,309,385	20
Covered loans (1)	1,031,004	1,481,854	(30)
Deposits	23,502,355	20,387,582	15
Common shareholders' equity	2,335,398	2,144,849	9
Total equity	2,505,318	2,144,849	17
Book value per common share	43.89	40.86	7
AVERAGE BALANCES			
Assets	$ 25,236,172	$ 22,527,750	12
Securities	8,495,746	6,634,547	28
Loans and leases, excluding covered loans	13,285,220	11,698,388	14
Covered loans (1)	1,268,513	1,699,182	(25)
Deposits	21,628,868	19,305,703	12
Common shareholders' equity	2,260,740	2,058,269	10
Total equity	2,283,489	2,076,721	10
SELECTED RATIOS			
Return on average assets	0.82%	0.77%	6
Return on average common shareholders' equity	9.20	8.38	10
Corporation's tier 1 leverage	6.60	6.77	(3)
Corporation's tier 1 risk-based capital	9.41	10.26	(8)
Corporation's total risk-based capital	12.52	12.83	(2)
Period-end common shareholders' equity to period-end assets	8.16	9.06	(10)
Period-end equity to period-end assets	8.75	9.06	(3)
Dividend payout ratio, per common share	38.96	24.64	58
Net interest margin	3.61	3.79	(5)
Expense to revenue ratio (2)	65.29	65.53	(0)
ASSET QUALITY RATIOS (3)			
Nonaccrual loans to total loans and leases	0.67%	0.91%	(26)
Nonaccrual loans and OREO to total loans and leases and OREO	0.81	1.16	(30)
Allowance for loan and lease losses to total loans and leases	1.88	2.13	(12)
Allowance for loan and lease losses to nonaccrual loans	278.48	234.37	19
Net recoveries (charge-offs) to average total loans and leases	0.05	(0.05)	NM
AT YEAR END			
Assets under management (4)	$ 38,239,781	$ 31,326,318	22
Assets under management or administration (4)(5)	56,680,318	46,490,341	22

NM Not meaningful

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

(2)

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

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

(4) Excludes $21.69 billion and $15.95 billion of assets under management for asset managers in which the Company held a noncontrolling ownership interest as of December 31, 2012 and December 31, 2011, respectively.

(5) Assets under administration have been revised to exclude the Company's investments that were held in custody and serviced by the Company's wealth management business. Prior period balances have been reclassified to conform to current period presentation.

Table of Contents

SELECTED FINANCIAL INFORMATION

(in thousands, except per share amounts) (1)	As of or for the year ended December 31, 2012	2011	2010	2009	2008
Statement of Income Data:					
Interest income	$ 886,551	$ 843,090	$ 830,196	$ 709,077	$ 784,688
Interest expense	55,715	70,100	99,871	85,024	184,792
Net interest income	830,836	772,990	730,325	624,053	599,896
Provision for credit losses on loans and leases, excluding covered loans	10,000	12,500	103,000	285,000	127,000
Provision for losses on covered loans	45,346	43,646	76,218		
Noninterest income	357,603	341,867	361,375	292,197	266,984
Noninterest expense	825,138	805,095	751,330	581,087	587,763
Income before taxes	307,955	253,616	161,152	50,163	152,117
Income taxes	98,822	77,561	26,055	(1,886)	41,783
Net income	$ 209,133	$ 176,055	$ 135,097	$ 52,049	$ 110,334
Less: Net income attributable to noncontrolling interest	1,084	3,634	3,920	710	5,378
Net income attributable to City National Corporation	$ 208,049	$ 172,421	$ 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	$ 208,049	$ 172,421	$ 125,475	$ 25,436	$ 102,511
Per Common Share Data:					
Net income per common share, basic	3.85	3.24	2.38	0.50	2.12
Net income per common share, diluted	3.83	3.21	2.36	0.50	2.11
Dividends per common share	1.50	0.80	0.40	0.55	1.92
Book value per common share	43.89	40.86	37.51	34.74	33.52
Weighted average common shares outstanding, basic	53,211	52,439	51,992	50,272	47,930
Weighted average common shares outstanding, diluted	53,475	52,849	52,455	50,421	48,196
Balance Sheet Data At Period End:					
Assets	$ 28,618,492	$ 23,666,291	$ 21,353,118	$ 21,078,757	$ 16,455,515
Securities	10,719,451	8,101,556	5,976,072	4,461,060	2,440,468
Loans and leases, excluding covered loans	14,818,295	12,309,385	11,386,628	12,146,908	12,444,259
Covered loans (2)	1,031,004	1,481,854	1,857,522	1,851,821	
Interest-earning assets	26,937,396	22,090,781	19,667,137	19,055,189	15,104,199
Core deposits	22,937,859	19,727,968	17,294,342	15,728,847	11,210,091
Deposits	23,502,355	20,387,582	18,176,862	17,379,448	12,652,124
Common shareholders' equity	2,335,398	2,144,849	1,959,579	1,790,275	1,614,904
Total equity	2,505,318	2,144,849	1,984,718	2,012,764	2,030,434
Balance Sheet Data Average Balances:					
Assets	$ 25,236,172	$ 22,527,750	$ 21,156,661	$ 17,711,495	$ 16,028,821
Securities	8,495,746	6,634,547	4,677,306	3,327,235	2,398,285
Loans and leases, excluding covered loans	13,285,220	11,698,388	11,576,380	12,296,619	12,088,715
Covered loans (2)	1,268,513	1,699,182	1,940,316	66,470	
Interest-earning assets	23,564,106	20,842,016	19,269,707	16,315,487	14,670,167
Core deposits	20,937,260	18,512,261	16,757,396	13,048,724	10,600,180
Deposits	21,628,868	19,305,703	17,868,392	14,351,898	11,899,642
Common shareholders' equity	2,260,740	2,058,269	1,902,846	1,745,101	1,636,597
Total equity	2,283,489	2,076,721	1,961,109	2,160,922	1,706,092
Asset Quality:					
Nonaccrual loans, excluding covered nonaccrual loans	$ 99,787	$ 112,026	$ 190,923	$ 388,707	$ 211,142
Covered nonaccrual loans		422	2,557		
OREO, excluding covered OREO	21,027	30,790	57,317	53,308	11,388
Covered OREO	58,276	98,550	120,866	60,558	
Total nonaccrual loans and OREO	$ 179,090	$ 241,788	$ 371,663	$ 502,573	$ 222,530
Performance Ratios:					
Return on average assets	0.82%	0.77%	0.62%	0.29%	0.65%

Return on average common shareholders' equity	9.20	8.38	6.59	1.46	6.26
Net interest spread	3.30	3.47	3.45	3.41	3.27
Net interest margin	3.61	3.79	3.86	3.91	4.20
Period-end common shareholders' equity to period-end assets	8.16	9.06	9.18	8.49	9.81
Period-end equity to period-end assets	8.75	9.06	9.29	9.55	12.34
Dividend payout ratio, per common share	38.96	24.64	16.75	107.80	90.61
Expense to revenue ratio	65.29	65.53	62.45	61.70	66.80
Asset Quality Ratios (3):					
Nonaccrual loans to total loans and leases	0.67%	0.91%	1.68%	3.20%	1.70%
Nonaccrual loans and OREO to total loans and leases and OREO	0.81	1.16	2.17	3.62	1.79
Allowance for loan and lease losses to total loans and leases	1.88	2.13	2.26	2.38	1.80
Allowance for loan and lease losses to nonaccrual loans	278.48	234.37	134.61	74.22	106.11
Net recoveries (charge-offs) to average total loans and leases	0.05	(0.05)	(1.13)	(1.84)	(0.57)

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

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

(3) Excludes covered assets.

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 59 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 CRA commitment. Through the Company's asset management subsidiaries 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 Company also advises and markets mutual funds under the name of CNI Charter Funds and Rochdale Investment Trust.

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 38 in connection with "forward-looking" statements included in this report.

Over the last three years, the Company's total assets have grown by 36 percent and total loans, excluding loans covered by loss-sharing agreements with the FDIC, were up 22 percent. Deposit balances grew 35 percent for the same period.

On April 8, 2011, the Bank acquired the banking operations of Nevada Commerce Bank ("NCB"), based in Las Vegas, Nevada, in a purchase and assumption agreement with the FDIC. Excluding the effects of acquisition accounting adjustments, the Bank acquired approximately $138.9 million in assets and assumed $121.9 million in liabilities. The Bank acquired most of NCB's assets, including loans with a fair value of $56.4 million, and assumed deposits with a fair value of $118.4 million. In connection with the acquisition, the Company entered into a loss-sharing agreement with the FDIC with respect to acquired loans and OREO.

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

On July 2, 2012, the Company acquired Rochdale Investment Management, LLC and associated entities (collectively, "Rochdale"), a New York City-based investment firm with approximately $4.89 billion of assets under management at the date of acquisition. Rochdale manages assets for

Table of Contents

affluent and high-net-worth clients and their financial advisors across the nation, and operates as a wholly owned subsidiary of the Bank.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles. The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified 11 policies as 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 ("OREO"), 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 & 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

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

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

Table of Contents

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

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

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

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

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

Securities Available-for-Sale and Trading Securities Fair values for U.S. Treasury securities, marketable equity securities and trading securities, with the exception of agency and municipal 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 municipal auction rate securities and 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. Securities held-to-maturity are not measured at fair value on a recurring basis.

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

Table of Contents

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. 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 is 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 is derived from market spot and/or forward foreign exchange rates and is 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.

Contingent Liabilities Contingent liabilities include contingent consideration obligations from business combinations that are settled in cash and FDIC clawback liabilities associated with FDIC-assisted acquisitions. Contingent consideration represents additional purchase price consideration to be transferred to the former shareholders of an acquired entity if certain future events or conditions are met. These contingencies are generally based on earnings or revenue growth targets contained in the acquisition agreement. FDIC clawback liabilities represent estimated payments by the Company to the FDIC if actual cumulative losses on acquired covered assets are lower than the cumulative losses originally estimated by the FDIC at the time of acquisition. Contingent consideration and FDIC clawback liabilities are recorded at fair value based on the circumstances that exist as of the acquisition date and are remeasured to fair value at each reporting date until the contingency is resolved. The Company's contingent liabilities are valued using the discounted cash flow method based on the terms specified in the acquisition or loss-sharing agreements and the following unobservable inputs, as applicable: (1) risk-adjusted discount rate reflecting the Bank's credit risk, plus a liquidity premium, (2) management's forecast of a range of possible performance outcomes, including revenue growth and margin, (3) management's estimate of the probability of each possible outcome, and (4) prepayment assumptions. Contingent liabilities are classified in Level 3 of the fair value hierarchy.

Redeemable Noncontrolling Interest Redeemable noncontrolling interest is comprised of noncontrolling ownership interests in the Corporation's investment management and wealth advisory affiliates. Redeemable noncontrolling interest is valued based on a combination of factors, including, but not limited to, observable valuation of firms similar to the affiliates, multiples of revenue or profit,

unique investment track products or performance, strength in the marketplace, projected discounted cash flow scenarios, strategic value of affiliates to other entities, as well as unique sources of value specific to an individual firm. The methodology used to fair value these interests is consistent with the industry practice of valuing similar types of instruments. Redeemable noncontrolling interest is classified in Level 3 of the fair value hierarchy.

Securities

Securities are classified based on management's intention on the date of purchase. Securities classified as available-for-sale or trading are presented at fair value and securities classified as held-to-maturity are presented at amortized cost. 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 are amortized or accreted into income using the interest method over the expected lives of the individual securities. The Company performs a quarterly assessment of available-for-sale and held-to-maturity debt securities 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 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 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 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. In accordance with ASC 310-30, the Company assembles loans into pools based on common risk characteristics. The Company believes that the primary drivers of risk in its acquired loan portfolio are loan program and

Table of Contents

purpose, and has assembled its loan pools based on these 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.

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

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

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

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

A portion of the allowance for loan and lease losses is attributed to impaired loans that are individually measured for impairment. This measurement considers all available evidence, including as appropriate, the probability that a specific loan will default, the expected exposure of a loan at default,

Table of Contents

an estimate of loss given default, the present value of expected future cash flows discounted using the loan's contractual effective rate, the secondary market value of the loan and the fair value of collateral.

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

Reserve for Off-Balance Sheet Credit Commitments Off-balance sheet credit commitments include commitments to extend credit and letters of credit. 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 or to the allowance for loan and lease losses.

Allowance for 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 consists of acquired OREO that is covered under loss-sharing agreements 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 Other Intangible Assets

Under the acquisition method of accounting, the acquiring entity in a business combination recognizes 100 percent of the assets acquired and liabilities assumed, including contingent consideration, 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 are 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

Table of Contents

range of four to eight years and client advisory contract intangibles are amortized over various periods ranging from four to 20 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. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. 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. The first step of the impairment evaluation process involves an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The qualitative factors considered include, but are not limited to, industry and market conditions and trends, the Company's financial performance and any Company-specific events relevant to the assessment. If the assessment of qualitative factors indicates that it is not more likely than not that impairment exists, no further testing is performed. If there is an indication that impairment exists, a quantitative test is performed to determine whether the fair value of each reporting unit, including goodwill, is less than the carrying amount of the reporting unit. If so, 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 based either on deposit premiums paid in recent deposit sale transactions, if relevant market data is available, or is based on discounted estimated future cash flows associated with the acquired deposits. The fair value of client advisory and other client service 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 anticipated cash flows for 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

Noncontrolling interest is the portion of equity in a subsidiary not attributable to a parent, and is reported as a separate component of equity in the consolidated balance sheets, with the exception of noncontrolling ownership interests that are redeemable at the option of the holder or outside the control of the issuer. These redeemable noncontrolling 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.

Table of Contents

Share-based Compensation Plans

The Company measures the cost of employee services received in exchange for an award of equity instruments 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 a stock option award is estimated using a Black-Scholes option valuation model. Restricted stock and restricted stock unit awards are valued at the closing price of the Company's stock on the date of the grant. Cash-settled restricted stock units are initially valued at the closing price of the Company's stock on the date of the grant and subsequently remeasured to the closing price of the Company's stock at each reporting date until settlement.

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 using enacted tax laws and rates and tax carryforwards. 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 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.*

On the date the derivative contract is entered into, the Company designates the derivative as a fair value hedge or cash flow hedge. For a fair value hedge, the change in the fair value of the derivative instrument is recognized in current earnings, on the same line in the consolidated statements of income as the changes in fair value of the related hedged item. For a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in Accumulated other comprehensive income

(loss) ("AOCI"). Any ineffective portion of the change in fair value of a cash flow hedge is recognized immediately in Other noninterest income in the consolidated statements of income. Amounts within AOCI are reclassified into earnings on the same line in the consolidated statements of income as the hedged item, i.e., included in interest income on loans and leases. 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 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. 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.

The Company discontinues hedge accounting prospectively when it is determined that a hedge is no longer highly effective. When hedge accounting is discontinued on a fair value hedge that no longer qualifies as an effective hedge, the derivative continues to be reported at fair value on the consolidated balance sheets, but the carrying amount of the hedged item is no longer adjusted for future changes in fair value. The adjustment to the carrying amount of the hedged item that existed at the date hedge accounting is discontinued is amortized over the remaining life of the hedged item into earnings. When it is determined that a cash flow hedge no longer qualifies as an effective hedge, future changes

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.

RECENT DEVELOPMENTS

On November 13, 2012, the Company issued 7,000,000 depositary shares, each representing a 1/40th interest in a share of 5.50% Series C non-cumulative perpetual preferred stock with a liquidation preference of $1,000 per share (equivalent to $25.00 per depositary share). Net proceeds, after issuance cost, were approximately $169.9 million.

2012 HIGHLIGHTS

Consolidated net income attributable to City National Corporation ("CNC") was $208.0 million, or $3.83 per diluted common share in 2012, up 21 percent from $172.4 million, or $3.21 per diluted common share, in 2011. The growth in net income was attributable to higher interest income from loans and securities, lower interest expense on deposits and the acquisitions of Rochdale and FAEF.

Table of Contents

Revenue, which consists of net interest income and noninterest income, was $1.19 billion, an increase of 7 percent from $1.11 billion in 2011.

Fully taxable-equivalent net interest income, including dividend income, amounted to $850.7 million in 2012, up 8 percent from $790.3 million in 2011.

Net interest margin was 3.61 percent in 2012, compared with 3.79 percent in 2011.

Noninterest income was $357.6 million for 2012, up 5 percent from $341.9 million for 2011, due primarily to the acquisition of Rochdale and FAEF and net gains from private equity and other alternative investments.

Noninterest expense for 2012 was $825.1 million, up 2 percent from $805.1 million in 2011, largely due to the acquisitions of Rochdale and FAEF. The results for 2012 also included $4.7 million in legal expenses related to the resolution of a legal claim.

The effective tax rate for 2012 was 32.1 percent compared to 30.6 percent in the prior year.

Total assets were $28.62 billion at December 31, 2012, up 21 percent from $23.67 billion at the end of 2011. Total average assets increased 12 percent to $25.24 billion for 2012 from $22.53 billion for 2011.

Loans and leases, excluding covered loans, grew 20 percent from $12.31 billion as of 2011 to $14.82 billion as of 2012. Average loans for 2012, on the same basis, were $13.29 billion, up 14 percent from $11.70 billion in 2011. These results reflect strong loan growth across all business segments, with over two-thirds coming from commercial lending.

Excluding covered loans, results for 2012 included a $10.0 million provision for loan and lease losses, down from $12.5 million in 2011. The allowance for losses on non-covered loans and leases was $277.9 million at December 31, 2012 compared with $262.6 million at December 31, 2011. The Company remains adequately reserved at 1.88 percent of total loans and leases, excluding covered loans, at December 31, 2012, compared with 2.13 percent at December 31, 2011.

In 2012, net loan recoveries totaled $7.1 million, or 0.05 percent of average total loans and leases, excluding covered loans, on an annualized basis, compared with net charge-offs of $5.4 million, or 0.05 percent in 2011. Nonaccrual loans, excluding covered loans, totaled $99.8 million at December 31, 2012, down from $112.0 million at December 31, 2011. At December 31, 2012, nonperforming assets, excluding covered assets, were $120.8 million, down from $142.8 million at December 31, 2011.

Average securities for 2012 totaled $8.50 billion, up 28 percent from 2011 due to strong deposit growth.

Period-end deposits at December 31, 2012 were $23.50 billion, up 15 percent from $20.39 billion for 2011. Average deposits grew to $21.63 billion for 2012, a 12 percent increase from $19.31 billion in 2011. Average core deposits, which equal 97 percent of total deposit balances in 2012, were up 13 percent from 2011.

The ratio of Tier 1 common shareholders' equity to risk-based assets was 8.5 percent at December 31, 2012 compared to 10.2 percent as of December 31, 2011. The change from the year-earlier period is a reflection of asset growth and acquisitions. Refer to the "Capital" section of Management's Discussion and Analysis for further discussion of this

non-GAAP measure.

The Company announced on November 15, 2012, that its Board of Directors had declared an accelerated quarterly common stock cash dividend of $0.25 per share and a special common

Table of Contents

stock cash dividend of $0.25 per share. The quarterly and special dividends were payable on December 18, 2012 to shareholders of record on December 3, 2012.

OUTLOOK

Given particularly strong growth in net income in 2012, the Company's management expects net income to grow very modestly in 2013. Nonetheless, loan and deposit balances are expected to increase, and credit quality should remain strong, though rising loan balances may require a somewhat higher loan-loss provision. Low interest rates and a very flat yield curve will continue to put pressure on the Company's net interest margin. This outlook reflects management's expectations for the continuation of moderate economic growth throughout 2013.

Table of Contents

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:

	Year Ended	Increase (Decrease)		Year Ended	Increase (Decrease)		Year Ended December 31,		
(in thousands, except per share amounts) (1)	2012	Amount	%	2011	Amount	%	2010	2009	2008
Interest income (2)	$ 903,278	$ 45,678	5	$ 857,600	$ 17,027	2	$ 840,573	$ 720,195	$ 796,879
Interest expense	55,715	(14,385)	(21)	70,100	(29,771)	(30)	99,871	85,024	184,792
Net interest income	847,563	60,063	8	787,500	46,798	6	740,702	635,171	612,087
Provision for credit losses on loans and leases, excluding covered loans	10,000	(2,500)	(20)	12,500	(90,500)	(88)	103,000	285,000	127,000
Provision for losses on covered loans	45,346	1,700	4	43,646	(32,572)	(43)	76,218		
Noninterest income	357,603	15,736	5	341,867	(19,508)	(5)	361,375	292,197	266,984
Noninterest expense:									
Staff expense	479,302	30,600	7	448,702	38,879	9	409,823	320,276	354,513
Other expense	345,836	(10,557)	(3)	356,393	14,886	4	341,507	260,811	233,250
Total	825,138	20,043	2	805,095	53,765	7	751,330	581,087	587,763
Income before income taxes	324,682	56,556	21	268,126	96,597	56	171,529	61,281	164,308
Income taxes	98,822	21,261	27	77,561	51,506	198	26,055	(1,886)	41,783
Less: Adjustments (2)	16,727	2,217	15	14,510	4,133	40	10,377	11,118	12,191
Net income	$ 209,133	$ 33,078	19	$ 176,055	$ 40,958	30	$ 135,097	$ 52,049	$ 110,334
Less: Net income attributable to noncontrolling interest	1,084	(2,550)	(70)	3,634	(286)	(7)	3,920	710	5,378
Net income attributable to City National Corporation	$ 208,049	$ 35,628	21	$ 172,421	$ 41,244	31	$ 131,177	$ 51,339	$ 104,956
Less: Dividends and accretion on preferred stock			NM		(5,702)	(100)	5,702	25,903	2,445
Net income available to common shareholders	$ 208,049	$ 35,628	21	$ 172,421	$ 46,946	37	$ 125,475	$ 25,436	$ 102,511
Net income per common share, diluted	$ 3.83	$ 0.62	19	$ 3.21	$ 0.85	36	$ 2.36	$ 0.50	$ 2.11

(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 tables present the components of net interest income on a fully taxable-equivalent basis for the last five years:

Net Interest Income Summary

	2012			2011		
(in thousands) (1)	Average balance	Interest income/ expense (2)(4)	Average interest rate	Average balance	Interest income/ expense (2)(4)	Average interest rate
Assets						
Interest-earning assets						
Loans and leases						
Commercial	$ 5,923,271	$ 236,346	3.99%	$ 4,818,081	$ 198,225	4.11%
Commercial real estate mortgages	2,375,389	108,618	4.57	1,962,740	106,076	5.40
Residential mortgages	3,846,823	160,422	4.17	3,670,996	172,714	4.70
Real estate construction	281,309	14,435	5.13	379,136	18,335	4.84
Equity lines of credit	725,077	25,632	3.54	731,425	26,142	3.57
Installment	133,351	6,086	4.56	136,010	6,631	4.88
Total loans and leases, excluding covered loans (3)	13,285,220	551,539	4.15	11,698,388	528,123	4.51
Covered loans	1,268,513	164,537	12.97	1,699,182	161,064	9.48
Total loans and leases	14,553,733	716,076	4.92	13,397,570	689,187	5.14
Due from banks interest-bearing	287,476	721	0.25	523,429	1,504	0.29
Federal funds sold and securities purchased under resale agreements	112,158	318	0.28	154,395	422	0.27
Securities	8,495,746	186,163	2.19	6,634,547	166,487	2.51
Other interest-earning assets	114,993	3,096	2.69	132,075	2,757	2.09
Total interest-earning assets	23,564,106	906,374	3.85	20,842,016	860,357	4.13
Allowance for loan and lease losses	(325,605)			(333,312)		
Cash and due from banks	176,443			196,864		
Other non-earning assets	1,821,228			1,822,182		
Total assets	$ 25,236,172			$ 22,527,750		
Liabilities and Equity						
Interest-bearing deposits						
Interest checking accounts	$ 1,980,590	$ 1,883	0.10	$ 1,767,775	$ 2,755	0.16
Money market accounts	5,904,484	7,432	0.13	6,626,365	23,278	0.35
Savings deposits	368,319	503	0.14	325,882	911	0.28
Time deposits under $100,000	225,081	1,082	0.48	293,545	1,513	0.52
Time deposits $100,000 and over	691,608	3,142	0.45	793,442	5,228	0.66
Total interest-bearing deposits	9,170,082	14,042	0.15	9,807,009	33,685	0.34
Federal funds purchased and securities sold under repurchase agreements	52,051	46	0.09	3,145	2	0.07
Other borrowings	833,757	41,627	4.99	803,948	36,413	4.53
Total interest-bearing liabilities	10,055,890	55,715	0.55	10,614,102	70,100	0.66
Noninterest-bearing deposits	12,458,786			9,498,694		
Other liabilities	438,007			338,233		
Total equity	2,283,489			2,076,721		
Total liabilities and equity	$ 25,236,172			$ 22,527,750		
Net interest spread			3.30%			3.47%
Fully taxable-equivalent net interest and dividend income		$ 850,659			$ 790,257	

Net interest margin	3.61%	3.79%
Less: Dividend income included in other income	3,096	2,757
Fully taxable-equivalent net interest income	$ 847,563	$ 787,500

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

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

(3) Includes average nonaccrual loans of $107,363, $145,825, $278,705, $351,215 and $128,296 for 2012, 2011, 2010, 2009 and 2008, respectively.

(4) Loan income includes loan fees of $25,907, $18,740, $20,555, $18,381 and $17,008 for 2012, 2011, 2010, 2009 and 2008, respectively.

Table of Contents

Net Interest Income Summary

2010			2009			2008		
Average balance	Interest income/ expense (2)(4)	Average interest rate	Average balance	Interest income/ expense (2)(4)	Average interest rate	Average balance	Interest income/ expense (2)(4)	Average interest rate
$ 4,390,834	$ 194,568	4.43%	$ 4,701,386	$ 199,647	4.25%	$ 4,662,641	$ 252,911	5.42%
2,059,680	114,542	5.56	2,171,353	121,515	5.60	2,057,459	134,511	6.54
3,553,347	186,526	5.25	3,481,227	192,774	5.54	3,293,166	184,818	5.61
660,603	26,132	3.96	1,094,332	37,154	3.40	1,406,181	76,039	5.41
742,862	26,567	3.58	674,459	23,417	3.47	503,428	22,340	4.44
169,054	8,775	5.19	173,862	8,842	5.09	165,840	9,841	5.93
11,576,380	557,110	4.81	12,296,619	583,349	4.74	12,088,715	680,460	5.63
1,940,316	138,451	7.14	66,470	4,052	6.10			0.00
13,516,696	695,561	5.15	12,363,089	587,401	4.75	12,088,715	680,460	5.63
678,929	1,890	0.28	361,571	1,486	0.41	96,872	1,896	1.96
249,381	634	0.25	186,123	264	0.14	10,037	161	1.61
4,677,306	142,488	3.05	3,327,235	131,044	3.94	2,398,285	114,362	4.77
147,395	2,787	1.89	77,469	2,743	3.54	76,258	4,297	5.63
19,269,707	843,360	4.38	16,315,487	722,938	4.43	14,670,167	801,176	5.46
(315,228)			(254,610)			(178,587)		
237,853			320,010			370,468		
1,964,329			1,330,608			1,166,773		
$ 21,156,661			$ 17,711,495			$ 16,028,821		
$ 1,998,990	$ 4,308	0.22	$ 1,540,496	$ 3,980	0.26	$ 851,029	$ 5,688	0.67
5,911,058	31,591	0.53	4,084,090	32,068	0.79	3,760,516	72,212	1.92
317,263	1,508	0.48	239,441	1,590	0.66	137,779	556	0.40
430,557	2,448	0.57	239,680	3,222	1.34	220,259	6,695	3.04
1,110,996	9,175	0.83	1,303,174	19,569	1.50	1,299,462	37,840	2.91
9,768,864	49,030	0.50	7,406,881	60,429	0.82	6,269,045	122,991	1.96
163,309	5,292	3.24	414,672	8,292	2.00	1,098,731	27,591	2.51
846,513	45,549	5.38	542,521	16,303	3.01	1,068,491	34,210	3.20
10,778,686	99,871	0.93	8,364,074	85,024	1.02	8,436,267	184,792	2.19
8,099,528			6,945,017			5,630,597		
317,338			241,482			255,865		
1,961,109			2,160,922			1,706,092		
$ 21,156,661			$ 17,711,495			$ 16,028,821		
		3.45%			3.41%			3.27%
	$ 743,489			$ 637,914			$ 616,384	

3.86%	3.91%	4.20%
2,787	2,743	4,297
$ 740,702	$ 635,171	$ 612,087

55

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 2012 and 2011, as well as between 2011 and 2010. 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

	2012 vs 2011			2011 vs 2010		
	Increase (decrease) due to		Net increase	Increase (decrease) due to		Net increase
(in thousands) (1)	Volume	Rate	(decrease)	Volume	Rate	(decrease)
Interest earned on:						
Total loans and leases (2)	$ 57,754	$ (30,865)	$ 26,889	$ (6,129)	$ (245)	$ (6,374)
Securities	42,627	(22,951)	19,676	52,230	(28,231)	23,999
Due from banks interest-bearing	(610)	(173)	(783)	(445)	59	(386)
Federal funds sold and securities purchased under resale agreements	(120)	16	(104)	(256)	44	(212)
Other interest-earning assets	(389)	728	339	(305)	275	(30)
Total interest-earning assets	99,262	(53,245)	46,017	45,095	(28,098)	16,997
Interest paid on:						
Interest checking deposits	301	(1,173)	(872)	(457)	(1,096)	(1,553)
Money market deposits	(2,299)	(13,547)	(15,846)	3,481	(11,794)	(8,313)
Savings deposits	106	(514)	(408)	40	(637)	(597)
Time deposits	(954)	(1,563)	(2,517)	(3,048)	(1,834)	(4,882)
Total borrowings	3,657	1,601	5,258	(9,508)	(4,918)	(14,426)
Total interest-bearing liabilities	811	(15,196)	(14,385)	(9,492)	(20,279)	(29,771)
	$ 98,451	$ (38,049)	$ 60,402	$ 54,587	$ (7,819)	$ 46,768

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

(2) Includes covered loans.

Comparison of 2012 with 2011

Net interest income was $830.8 million for 2012, an increase of 7 percent from $773.0 million for 2011. The increase from the prior year was largely due to higher interest income on loans and securities. Interest income on total loans was $708.9 million in 2012, up 4 percent from 2011. The increase reflects the growth in the Company's loan and lease portfolio and higher income from the net accelerated accretable yield recognition on covered loans that were paid off or fully charged off during 2012, partially offset by lower yields on loans. Income from accelerated accretable yield recognition was $82.8 million for 2012, up from $55.7 million for 2011. Interest income on securities was $176.7 million in 2012, an 11 percent increase from 2011. The impact of lower yields was offset by significant growth in the securities portfolio over the prior year. Average securities were $8.50 billion in 2012, up 28 percent from 2011 as the Company continued to invest a large share of its growing deposits in securities.

Total interest expense was $55.7 million in 2012, down from $70.1 million in 2011. Interest expense on deposits was $14.0 million in 2012, down 58 percent from $33.7 million in 2011 as a result of lower interest rates and a 6 percent decrease in average interest-bearing deposits. Interest expense on borrowings increased 14 percent to $41.7 million in 2012, compared to $36.4 million in 2011. The

growth in interest expense on borrowings was primarily attributable to debt assumed in the acquisition of FAEF and the issuance of $150.0 million in subordinated notes during the second quarter of 2012.

The net settlement of interest-rate swaps increased net interest income by $8.4 million for 2012 and $15.1 million for 2011.

The fully taxable net interest margin declined to 3.61 percent for 2012, from 3.79 percent for 2011. The average yield on earning assets for 2012 was 3.85 percent, down 28 basis points from 4.13 percent in 2011. The average cost of interest-bearing liabilities decreased to 0.55 percent, or by 11 basis points, from 0.66 percent for 2011. Fully taxable-equivalent net interest income, which includes amounts to convert nontaxable income to fully taxable-equivalent amounts, was $847.6 million for 2012 compared with $787.5 million for 2011. Fully taxable-equivalent net interest and dividend income was $850.7 million and $790.3 million in 2012 and 2011, respectively. The $60.4 million increase in fully taxable-equivalent net interest and dividend income from the prior year was primarily generated through loans and securities growth (volume variance) and lower rates on interest-bearing deposits, partially offset by lower yields on loans and securities (rate variance).

Average loans and leases, excluding covered loans, were $13.29 billion, a 14 percent increase from $11.70 billion for 2011. The increase was primarily driven by a growth in commercial loans, which grew 23 percent from 2011, and commercial real estate mortgage loans, which grew 21 percent. The growth in commercial loans from the prior year was due to both organic loan growth and lease financing loans that were acquired with FAEF. Average covered loans were $1.27 billion in 2012, a decrease of 25 percent from $1.70 billion in 2011.

Average deposits were $21.63 billion for 2012, a 12 percent increase from $19.31 billion in 2011. Average core deposits, which do not include certificates of deposits of $100,000 or more, were $20.94 billion and represented 97 percent of the total average deposit balance, compared to $18.51 billion and 96 percent in 2011. Average interest-bearing deposits were $9.17 billion in 2012, down 6 percent from $9.81 billion for 2011. Average noninterest-bearing deposits increased 31 percent to $12.46 billion from $9.50 billion in 2011.

Comparison of 2011 with 2010

Net interest income was $773.0 million for 2011, an increase of 6 percent from $730.3 million for 2010. Interest income on securities was $159.3 million in 2011, a 16 percent increase from 2010 due primarily to a 42 percent increase in average securities over the year-earlier period. Interest income on total loans was $681.9 million in 2011, down 1 percent from 2010, reflecting lower yields on non-covered loans in 2011, partially offset by an increase in interest income on covered loans. Interest income from covered loans included $55.7 million of income from the accelerated accretable yield recognition on covered loans that were paid off or fully charged off during the current year, compared to $20.6 million in 2010.

Total interest expense was $70.1 million in 2011, down from $99.9 million in 2010. Interest expense on deposits was $33.7 million in 2011, down 31 percent from $49.0 million in 2010 as a result of lower interest rates. Interest expense on borrowings decreased 28 percent to $36.4 million in 2011, compared to $50.8 million in 2010. The lower interest expense reflected a decrease in average borrowings due to the extinguishment of structured repurchase agreements and the redemption of trust preferred securities in 2010.

The net settlement of interest-rate swaps increased net interest income by $15.1 million for 2011 and $25.8 million for 2010.

The fully taxable net interest margin declined to 3.79 percent for 2011, from 3.86 percent for 2010. The average yield on earning assets for 2011 was 4.13 percent, down 25 basis points from 4.38 percent in 2010. The average cost of interest-bearing liabilities decreased to 0.66 percent, or by 27 basis points,

Table of Contents

from 0.93 percent for 2010. Fully taxable-equivalent net interest income was $787.5 million for 2011 compared with $740.7 million for 2010. Fully taxable-equivalent net interest and dividend income was $790.3 million and $743.5 million in 2011 and 2010, respectively. The $46.8 million increase in fully taxable-equivalent net interest and dividend income from 2010 was primarily generated through securities growth and lower interest-bearing liabilities (volume variance) and was partially offset by a decrease in net interest income largely due to lower yields on securities (rate variance).

Average loans and leases, excluding covered loans, were $11.70 billion, a 1 percent increase from $11.58 billion for 2010. The increase was primarily driven by a growth in commercial loans, which grew 10 percent from 2010, partially offset by lower commercial real estate mortgage and real estate construction loans. Average covered loans were $1.70 billion in 2011, a decrease of 12 percent from $1.94 billion in 2010.

Average total securities were $6.63 billion in 2011, a 42 percent increase from 2010. The increase reflected the Company's strong deposit growth which outpaced loan growth.

Average deposits were $19.31 billion for 2011, an 8 percent increase from $17.87 billion in 2010. Average core deposits were $18.51 billion and represented 96 percent of the total average deposit balance, compared to $16.76 billion and 94 percent in 2010. Average interest-bearing deposits were $9.81 billion in 2011, up slightly from $9.77 billion for 2010, and average noninterest-bearing deposits increased 17 percent to $9.50 billion from $8.10 billion in 2010.

Provision for Credit Losses

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

The Company recorded expense of $10.0 million, $12.5 million and $103.0 million through the provision for credit losses on loans and leases, excluding covered loans, in 2012, 2011 and 2010, 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.

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements, and are primarily accounted for as acquired impaired loans under ASC 310-30. The provision for losses on covered loans is the expense recognized in the consolidated statements of income related to impairment losses resulting from the Company's quarterly review and update of cash flow projections on its covered loan portfolio. The Company recorded provision for losses on covered loans of $45.3 million, $43.6 million and $76.2 million in 2012, 2011 and 2010, respectively. Approximately $0.3 million and $0.4 million of the provision in 2011 and 2010, respectively, related to a small population of acquired loans that are outside the scope of ASC 310-30. The provision for losses on covered loans is the result of changes in expected cash flows, both amount and timing, due to loan payments and the Company's revised loss and prepayment forecasts. The revisions of the loss and prepayment forecasts were based on the results of management's review of the credit quality of the

Table of Contents

outstanding covered loans and the analysis of the loan performance data since the acquisition of covered loans. The Company will continue updating cash flow projections on covered loans on a quarterly basis. Due to the uncertainty in the future performance of the covered loans, additional impairments may be recognized in the future.

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

Refer to "Loans and Leases Asset Quality" on page 88 for further discussion of credit quality.

Noninterest Income

Noninterest income for the year totaled $357.6 million, an increase of 5 percent from $341.9 million in 2011. Noninterest income decreased 5 percent between 2011 and 2010. Noninterest income represented 30 percent of total revenues in 2012, a decrease from 31 percent and 33 percent in 2011 and 2010, respectively.

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

Analysis of Changes in Noninterest Income

(in thousands) (1)	2012	Increase (Decrease) Amount	%	2011	Increase (Decrease) Amount	%	2010
Trust and investment fees	$ 155,224	$ 14,492	10.3	$ 140,732	$ 6,005	4.5	$ 134,727
Brokerage and mutual fund fees	27,804	7,364	36.0	20,440	(3,302)	(13.9)	23,742
Total wealth management fees	183,028	21,856	13.6	161,172	2,703	1.7	158,469
Cash management and deposit transaction fees	45,649	1,344	3.0	44,305	(3,288)	(6.9)	47,593
International services fees	39,963	3,497	9.6	36,466	5,169	16.5	31,297
FDIC loss sharing (expense) income, net	(6,017)	2,620	30.3	(8,637)	(71,972)	(113.6)	63,335
Other noninterest income	82,865	7,183	9.5	75,682	43,539	135.5	32,143
Total noninterest income before gain (loss)	345,488	36,500	11.8	308,988	(23,849)	(7.2)	332,837
Gain on disposal of assets	11,293	(9,007)	(44.4)	20,300	17,463	615.5	2,837
Gain on acquisition		(8,164)	(100.0)	8,164	(19,175)	(70.1)	27,339
Gain on sale of securities	1,113	(3,953)	(78.0)	5,066	4,673	1,189.1	393
Impairment loss on securities	(291)	360	55.3	(651)	1,380	67.9	(2,031)
Total noninterest income	$ 357,603	$ 15,736	4.6	$ 341,867	$ (19,508)	(5.4)	$ 361,375

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

Wealth Management

The Company provides various trust, investment and wealth advisory services to its individual and business clients. The Company delivers these services through the Bank's wealth management division as well as through its wealth management affiliates. Trust services are provided only by the Bank. Trust and investment fee revenue includes fees from trust, investment and asset management, and other wealth advisory services. The majority of these fees are based on the market value of client assets managed, advised, administered or held in custody. The remaining portion of these fees is based on the specific service provided, such as estate and financial planning services, or may be fixed fees. For those fees based on market valuations, the mix of assets held in client accounts, as well as the type of managed account, impacts how closely changes in trust and investment fee income correlate with changes in the financial markets. Changes in market valuations are reflected in fee income primarily on a trailing-quarter basis. Also included in total trust and investment fees is the Company's portion of

Table of Contents

income from certain investments accounted for under the equity method. Trust and investment fees were $155.2 million, an increase of 10 percent from $140.7 million for 2011. Money market mutual fund and brokerage fees were $27.8 million, an increase of 36 percent from $20.4 million for 2011. The increase was largely due to the acquisition of Rochdale, as well as slightly higher short-term interest rates.

Assets under management 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 are assets the Company holds in a fiduciary capacity or for which it provides non-advisory services. During the third quarter of 2012, assets under administration were revised to exclude the Company's investments that were held in custody and serviced by the Company's wealth management business. Prior period balances were reclassified to conform to current period presentation. The table below provides a summary of assets under management and assets under administration for the dates indicated:

(in millions)	December 31, 2012	December 31, 2011	% Change
Assets Under Management	$ 38,240	$ 31,326	22
Assets Under Administration			
Brokerage	5,218	5,320	(2)
Custody and other fiduciary	13,222	9,844	34
Subtotal	18,440	15,164	22
Total assets under management or administration (1)	$ 56,680	$ 46,490	22

(1) Excludes $21.69 billion and $15.95 billion of assets under management for asset managers in which the Company held a noncontrolling ownership interest as of December 31, 2012 and December 31, 2011, respectively.

Assets under management increased 22 percent from December 31, 2011 due primarily to the acquisition of Rochdale and market appreciation. A distribution of assets under management by type of investment is provided in the following table:

Investment	% of Assets Under Management December 31, 2012	% of Assets Under Management December 31, 2011
Equities	43%	38%
U.S. fixed income	27	28
Cash and cash equivalents	18	21
Other (1)	12	13
	100%	100%

(1) Includes private equity and other alternative investments.

Other Noninterest Income

Cash management and deposit transaction fees for 2012 were $45.6 million, up 3 percent from 2011, compared with a 7 percent decrease in 2011 from 2010. The increase from the prior year was due to new product sales and growth in transaction volumes.

Table of Contents

International services income for 2012 was $40.0 million compared to $36.5 million in 2011 and $31.3 million in 2010. International services income includes foreign exchange fees, fees on commercial letters of credit and standby letters of credit, foreign collection fees and gains and losses associated with fluctuations in foreign currency exchange rates. The 10 percent increase from 2011 largely reflected increased client activity and the addition of new clients.

Net FDIC loss sharing expense was $6.0 million in 2012 and $8.6 million in 2011, compared to net FDIC loss sharing income of $63.3 million in 2010. See "Noninterest Income and Expense Related to Covered Assets" for further discussion of FDIC loss sharing income and expense.

The Company recognized $1.1 million of net gains on the sale of securities in 2012, compared with net gains of $5.1 million for 2011 and $0.4 million for 2010.

Impairment losses on securities available-for-sale recognized in earnings were $0.3 million in 2012, down from $0.7 million in 2011 and $2.0 million in 2010. See "Balance Sheet Analysis Securities" for further discussion of impairment loss on securities available-for-sale.

Net gain on disposal of assets was $11.3 million in 2012, compared to $20.3 million in 2011 and $2.8 million in 2010. The net gain was primarily due to gains recognized on the sale of covered and non-covered OREO.

The Company recognized an $8.2 million and $27.3 million pretax gain on FDIC-assisted acquisitions in 2011 and 2010, respectively.

Other income was $82.9 million in 2012 compared to $75.7 million in 2011 and $32.1 million in 2010. The increase in other income in 2012 from the year earlier was primarily attributable to the FAEF acquisition, higher income from client swap transactions and higher distribution income from private equity investments. These increases were partially offset by lower gains on transfers of covered loans to OREO. The increase in other income in 2011 compared with 2010 was largely due to higher net gains on transfers of covered loans to OREO. In addition, other income for 2010 included total charges of $19.1 million on the early extinguishment of debt and a $5.9 million loss related to one of the Company's affiliated investment advisors.

Noninterest Expense

Noninterest expense was $825.1 million in 2012, an increase of 2 percent from $805.1 million in 2011. Noninterest expense increased 7 percent in 2011 compared to 2010. The increase in noninterest expense for 2012 compared with the year earlier was primarily attributable to the Rochdale and FAEF acquisitions, higher occupancy expense and higher legal expenses related to the resolution of a legal claim. The increase from 2010 to 2011 was due largely to higher compensation costs, as well as increased expenses for OREO, marketing and advertising, and legal and professional services.

Table of Contents

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

Analysis of Changes in Noninterest Expense

		Increase (Decrease)			Increase (Decrease)		
(in thousands)	**2012**	**Amount**	**%**	**2011**	**Amount**	**%**	**2010**
Salaries and employee benefits	$ 479,302	$ 30,600	6.8	$ 448,702	$ 38,879	9.5	$ 409,823
All other:							
Net occupancy of premises	61,534	7,194	13.2	54,340	(1,227)	(2.2)	55,567
Legal and professional fees	52,840	2,885	5.8	49,955	2,314	4.9	47,641
Information services	34,244	2,147	6.7	32,097	1,273	4.1	30,824
Depreciation and amortization	32,485	4,889	17.7	27,596	1,751	6.8	25,845
Amortization of intangibles	7,268	(459)	(5.9)	7,727	(1,309)	(14.5)	9,036
Marketing and advertising	30,665	1,745	6.0	28,920	5,808	25.1	23,112
Office services and equipment	17,848	(120)	(0.7)	17,968	1,587	9.7	16,381
Other real estate owned	38,253	(26,791)	(41.2)	65,044	1,933	3.1	63,111
FDIC assessments	18,117	(11,363)	(38.5)	29,480	425	1.5	29,055
Other operating	52,582	9,316	21.5	43,266	2,331	5.7	40,935
Total all other	345,836	(10,557)	(3.0)	356,393	14,886	4.4	341,507
Total noninterest expense	$ 825,138	$ 20,043	2.5	$ 805,095	$ 53,765	7.2	$ 751,330

Salaries and employee benefits expense for 2012 was $479.3 million, up 7 percent from $448.7 million in 2011. Salaries and employee benefits expense increased 9 percent in 2011 from $409.8 million in 2010. Full-time equivalent staff grew to 3,472 at December 31, 2012 from 3,256 at December 31, 2011 and 3,178 at December 31, 2010. The increase in salaries and employee benefits expense and headcount in 2012 was primarily attributable to business acquisitions. The expense growth in 2011 compared to 2010 was due to an increase in employee headcount and higher bonus and incentive compensation expense.

Salaries and employee benefits expense for 2012 included $18.6 million related to share-based compensation plans, compared with $19.5 million for 2011 and $16.7 million for 2010. At December 31, 2012, there was $12.9 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 2.4 years. At December 31, 2012, there was $20.6 million of unrecognized compensation cost related to restricted stock granted under the Company's plans. That cost is expected to be recognized over a weighted average period of 3.0 years. In 2012, the Company granted cash-settled restricted stock units to employees. These units are initially valued at the closing price of the Company's stock on the date of award and subsequently remeasured at each reporting date until settlement. See Note 15, *Share-Based Compensation*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion.

The remaining noninterest expense categories totaled $345.8 million in 2012, down 3 percent from $356.4 million in 2011. Increases in operating expenses associated with the Company's acquisitions and the addition of new office space were offset by lower FDIC assessments and decreases in covered OREO expense. The remaining noninterest expense categories were up 4 percent in 2011 from 2010 due to higher expenses for OREO, marketing and advertising, and legal and professional services.

The following table provides a summary of OREO expense for non-covered OREO and covered OREO. Under the loss-sharing agreements, 80 percent of qualifying covered OREO expense is

Table of Contents

reimbursable by the FDIC and reflected in FDIC loss sharing income (expense), net in the noninterest income section of the consolidated statements of income.

	For the year ended December 31,		
(in thousands)	**2012**	**2011**	**2010**
Non-covered OREO expense			
Valuation write-downs	$ 3,543	$ 4,008	$ 18,857
Holding costs and foreclosure expense	867	2,197	2,441
Total non-covered OREO expense	$ 4,410	$ 6,205	$ 21,298
Covered OREO expense			
Valuation write-downs	$ 20,440	$ 41,443	$ 24,809
Holding costs and foreclosure expense	13,403	17,396	17,004
Total covered OREO expense	$ 33,843	$ 58,839	$ 41,813
Total OREO expense	$ 38,253	$ 65,044	$ 63,111

Legal and professional fees were $52.8 million for 2012, compared to $50.0 million in 2011 and $47.6 million in 2010. The increase in legal and professional fees in 2012 is primarily due to acquisition-related transaction costs and legal expenses associated with the resolution of a legal claim. Legal and professional fees associated with covered loans and OREO were approximately $10.0 million, $10.2 million and $6.7 million for 2012, 2011 and 2010, respectively. Qualifying legal and professional fees for covered assets are also reimbursable by the FDIC at 80 percent.

Net income attributable to noncontrolling interest, representing noncontrolling ownership interests in the net income of affiliates, was $1.1 million in 2012, down from $3.6 million in 2011 and $3.9 million in 2010.

Table of Contents

Noninterest Income and Expense Related to Covered Assets

The following table summarizes the components of noninterest income and noninterest expense related to covered assets for the years ended December 31, 2012, 2011 and 2010:

(in thousands)	For the year ended December 31, 2012	2011	2010
Noninterest income related to covered assets			
FDIC loss sharing (expense) income, net			
Gain on indemnification asset	$ 60,057	$ 34,026	$ 52,061
Indemnification asset accretion	(17,234)	(15,568)	9,185
Net FDIC reimbursement for OREO and loan expenses	32,797	53,324	41,210
Removal of indemnification asset for loans paid-off or fully charged-off	(32,797)	(26,002)	(14,228)
Removal of indemnification asset for unfunded loan commitments and loans transferred to OREO	(11,220)	(24,945)	(15,315)
Removal of indemnification asset for OREO and net reimbursement to FDIC for OREO sales	(7,106)	(12,867)	(3,549)
Loan recoveries shared with FDIC	(28,647)	(16,174)	(2,765)
Increase in FDIC clawback liability	(1,867)	(1,192)	(3,264)
Other		761	
Total FDIC loss sharing (expense) income, net	(6,017)	(8,637)	63,335
Gain on disposal of assets			
Net gain on sale of OREO	7,740	16,272	3,895
Gain on acquisition		8,164	27,339
Other income			
Net gain on transfers of covered loans to OREO	16,180	33,858	21,218
Amortization of fair value on acquired unfunded loan commitments	1,572	3,104	3,432
OREO income	2,925	2,083	1,512
Other	(3,150)	(1,909)	(3,810)
Total other income	17,527	37,136	22,352
Total noninterest income related to covered assets	$ 19,250	$ 52,935	$ 116,921
Noninterest expense related to covered assets (1)			
Other real estate owned			
Valuation write-downs	$ 20,440	$ 41,443	$ 24,809
Holding costs and foreclosure expense	13,403	17,396	17,004
Total other real estate owned	33,843	58,839	41,813
Legal and professional fees	9,996	10,221	6,668
Other operating expense			
Other covered asset expenses	84	53	14
Total noninterest expense related to covered assets (2)	$ 43,923	$ 69,113	$ 48,495

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

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

Table of Contents

Noninterest income

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

Net FDIC loss sharing expense was $6.0 million for 2012, compared to net FDIC loss sharing expense of $8.6 million in 2011 and net FDIC loss sharing income of $63.3 million in 2010. The lower expense in 2012 compared to 2011 was primarily attributable to higher gains on the indemnification asset from a revision of the Company's projected cash flows forecast on its covered loans, partially offset by lower FDIC reimbursement for covered OREO and loan expenses resulting from an overall decline in OREO and loan costs. The decrease from income to expense in 2011 compared to 2010 was attributable to expense from the amortization of the FDIC indemnification asset compared to accretion income recognized in 2010, as well as higher expenses from the reduction of the FDIC indemnification asset due to loan removals. It also reflects lower gains on the indemnification asset and an increase in loan recoveries that are shared with the FDIC.

The Company recognized a net gain on sales of covered OREO of $7.7 million in 2012 compared to $16.3 million in 2011 and $3.9 million in 2010. Other income related to covered assets was $17.5 million, $37.1 million and $22.4 million in 2012, 2011 and 2010, respectively, and consists primarily of net gain on transfers of covered loans to OREO, the amortization of fair value on acquired unfunded loan commitments and OREO income. Total other income decreased from prior periods due to lower net gains recognized on the transfers of covered loans to OREO, which were $16.2 million, $33.9 million and $21.2 million in 2012, 2011 and 2010, respectively. The gain or loss recognized on the transfer of covered loans to OREO is calculated as the difference between the carrying value of the covered loan and the fair value of the underlying foreclosed collateral. Refer to the above table for additional information on the components of other income related to covered assets for the years ended December 31, 2012, 2011 and 2010.

Noninterest expense

Noninterest expense related to covered assets includes OREO expense, legal and professional expense, and other covered asset-related expenses, and may be subject to FDIC reimbursement. Expenses must meet certain FDIC criteria in order for the expense amounts to be reimbursed. Certain amounts reflected in these balances may not be reimbursed by the FDIC if they do not meet the criteria. Total OREO expense, which includes valuation write-downs, holding costs and foreclosure expenses was $33.8 million for 2012, down from $58.8 million for 2011 and $41.8 million for 2010.

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.

Table of Contents

Commercial and Private Banking

Comparison of 2012 to 2011

Net income for the Commercial and Private Banking segment decreased to $106.8 million for 2012 from $120.7 million for 2011. The decrease in net income from the prior year was primarily attributable to lower net interest income and lower noninterest income. Net interest income decreased to $724.6 million for 2012 from $740.4 million for 2011. The decline in net interest income for the current year was primarily a result of lower funds transfer pricing income on deposits. In 2012, the funds transfer pricing rate paid on core non-maturing deposits was lowered by 50 percent from 2011. The funds transfer pricing system intends to protect the business line from interest rate volatility, but during extended periods of extremely low or high interest rates, it is not possible to fully mitigate the impact of rate changes. As such, despite record deposit and loan generation in 2012, net interest income declined from 2011. The funds transfer pricing rate on core non-maturity deposits is not expected to decline any further. This decrease in net interest income was partially offset by interest income from leases acquired in the FAEF acquisition and higher interest income from covered loans due to an increase in income from the accelerated yield recognition on covered loans that were paid off or charged off during the year.

Average loans, excluding covered loans, were $13.22 billion in 2012, up 14 percent from $11.64 billion in 2011, due to organic loan growth, an increase in purchased participations in Shared National Credits, and the leases acquired in the FAEF acquisition. For more discussion on Share National Credits, see "Balance Sheet Analysis Loan and Lease Portfolio Commercial and Lease Financing." Average covered loans decreased to $1.27 billion for 2012 from $1.70 billion for the prior year. Average deposits increased by 12 percent to $21.06 billion for 2012 from $18.86 billion for 2011. The growth in average deposits compared with the year earlier was driven by new client relationships and growth in deposits of existing clients.

Provision for credit losses on loans and leases, excluding covered loans, decreased to $10.0 million for 2012 from $12.5 million for 2011. Provision for losses on covered loans increased to $45.3 million for 2012 from $43.6 million for 2011. Refer to "Results of Operations Provision for Credit Losses" for further discussion of the provision.

Noninterest income decreased by 3 percent to $215.4 million for 2012 from $222.3 million for 2011. The decrease is primarily due to lower gains on transfers of covered loans to OREO in 2012. Additionally, noninterest income for the prior year included an $8.2 million acquisition gain. Refer to "Results of Operations Noninterest Income and Expense Related to Covered Assets" for further discussion. These declines in noninterest income were partially offset by increases in lease income from FAEF and higher income from client swap transactions. Noninterest expense, including depreciation and amortization, increased to $700.5 million for 2012 from $698.5 million for the year earlier. Increases in operating expenses associated with acquisitions were largely offset by decreases in covered OREO expense and lower FDIC assessments.

Comparison of 2011 to 2010

Net income for the Commercial and Private Banking segment increased to $120.7 million for 2011 from $91.6 million for 2010. The increase in net income from the prior year was primarily attributable to growth in net interest income and a significantly lower provision for losses on total loans, partially offset by a decrease in noninterest income and an increase in noninterest expense. Net interest income increased to $740.4 million for 2011 from $702.8 million for 2010. The increase in net interest income for 2011 was primarily due to an increase in interest income from the accelerated yield recognition on covered loans that were paid off or charged off during the year. Average loans, excluding covered loans, increased to $11.64 billion for 2011 from $11.53 billion for 2010. Average covered loans decreased to $1.70 billion for 2011 from $1.94 billion for the prior year. Average deposits increased by

9 percent to $18.86 billion for 2011 from $17.29 billion for 2010. The growth in average deposits compared with the year earlier reflected the addition of new clients and higher levels of liquidity maintained by existing clients.

Provision for credit losses on loans and leases, excluding covered loans, decreased to $12.5 million for 2011 from $103.0 million for 2010. Provision for losses on covered loans decreased to $43.6 million for 2011 from $76.2 million for 2010. Refer to "Results of Operations Provision for Credit Losses" for further discussion of the provision.

Noninterest income decreased by 20 percent to $222.3 million for 2011 from $277.9 million for 2010. The decrease is primarily due to higher FDIC loss sharing expense and lower acquisition gains compared with the year earlier. Refer to "Results of Operations Noninterest Income and Expense Related to Covered Assets" for further discussion of FDIC loss sharing expense. Noninterest expense, including depreciation and amortization, increased to $698.5 million, or by 9 percent, for 2011 from $643.5 million for the year earlier. The increase in noninterest expense from 2010 was largely driven by higher compensation costs, as well as increased expenses for legal and professional services, marketing and advertising, and OREO. Noninterest expense for 2011 reflected the full-year impact of two FDIC-assisted acquisitions completed during the second quarter of 2010, a bank acquisition completed in the second quarter of 2011 and the addition of new branch offices in 2011.

Wealth Management

Comparison of 2012 to 2011

The Wealth Management segment had net income attributable to CNC of $8.8 million for 2012, an increase of 54 percent from $5.7 million for 2011. Noninterest income increased by 16 percent to $187.8 million for 2012 from $162.2 million for 2011, mostly as a result of the Rochdale acquisition. Refer to "Results of Operations Noninterest Income Wealth Management" for further discussion of the factors impacting fee income for the Wealth Management segment. Noninterest expense, including depreciation and amortization, was $175.2 million for 2012 compared with $152.5 million for the year earlier. The increase in noninterest expense in 2012 compared with the year earlier was primarily due to the acquisition of Rochdale.

Comparison of 2011 to 2010

The Wealth Management segment had net income attributable to CNC of $5.7 million for 2011, an increase of 150 percent from $2.3 million for 2010. Noninterest income increased by 4 percent to $162.2 million for 2011 from $155.7 million for 2010. Refer to "Results of Operations Noninterest Income Wealth Management" for a discussion of the factors impacting fee income for the Wealth Management segment. Noninterest expense, including depreciation and amortization, was $152.5 million for 2011 compared with $151.7 million for the year earlier. The increase in noninterest expense in 2011 compared with the year earlier was primarily attributable to higher incentive compensation and expense related to the resolution of two legal claims.

Other

Comparison of 2012 to 2011

Net income attributable to CNC for the Other segment increased to $92.4 million for 2012, from $46.0 million for 2011. The Asset Liability Funding Center ("Funding Center"), which is included in the Other segment, is used for funds transfer pricing. The Funding Center charges the business line units for loans and pays them for generating deposits. In general, net interest income decreases in the Funding Center when loans and securities balances decrease or when deposit balances increase. However, in periods of extremely low interest rates, the funding credit given on deposits to the

Table of Contents

Commercial and Private Banking segment declines considerably which may cause net interest income in the Funding Center to increase. Net interest income increased to $102.6 million for 2012 from $30.4 million for 2011. The increase in net interest income was due to higher funds transfer income due to loan and securities growth, and to a reduction in the funds transfer rate paid to business line units on deposit balances. Although deposits have increased from the prior year, the transfer pricing paid on deposits declined as a result of the continuing low interest rate environment.

Noninterest income (loss) was ($45.6) million for 2012 compared with ($42.7) million for the year earlier. The change in noninterest income (loss) reflects an increase in the elimination of inter-segment revenues (recorded in Other segment) due to higher wealth management fee income compared to the year-earlier period, as well as lower net gains on the sale of securities.

Comparison of 2011 to 2010

Net income attributable to CNC for the Other segment increased to $46.0 million for 2011, from $37.2 million for 2010. Net interest income increased to $30.4 million for 2011 from $25.8 million for 2010. The increase in net interest income was due to higher funds transfer income due to securities growth, partially offset by an increase in deposit balances in the Commercial and Private Banking and Wealth Management segments. Noninterest income (loss) was ($42.7) million for 2011 compared with ($72.2) million for the year earlier. Gains on sales of securities increased to $5.1 million for 2011 from $0.4 million in 2010. Additionally, noninterest income (loss) for 2010 included a $12.3 million charge for the early retirement of debt, a $6.8 million charge for the redemption of trust preferred securities and a $5.0 million charge for the write-off of a CRA-related receivable.

Income Taxes

The Company recognized income tax expense of $98.8 million in 2012, compared to tax expense of $77.6 million in 2011 and $26.1 million in 2010. The effective tax rate for 2012 was equal to 32.1 percent of pretax income, compared to 30.6 percent for 2011 and 16.2 percent for 2010. The increase in the effective tax rate in 2012, as compared to 2011, was attributable in part to higher pretax income. The effective tax rate for 2010 reflects a favorable tax litigation settlement. 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 $124.5 million and $155.5 million as of December 31, 2012 and 2011, respectively.

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

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

Table of Contents

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 & Risk Committee and facilitated through multiple management committees. Consisting of three outside directors, the Audit & 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 ALCO, the Credit Policy 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. These committees include the Compliance Committee, the Wire Risk Committee, Product Review Committee and the Information Technology Steering Committee, among others, 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 & 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 92 percent and 91 percent of funding for average total assets in 2012 and 2011,

respectively. Strong core deposits are indicative of the strength of the Company's franchise in its chosen markets and reflect the confidence that clients have in the Company. The Company places a very high priority in maintaining this confidence through conservative credit and capital management practices and by maintaining significant on-balance sheet liquidity reserves.

The Bank opted out of the Transaction Account Guarantee Program as of July 1, 2010, with notice to depositors. Effective December 31, 2010, the Dodd-Frank Act required unlimited FDIC deposit insurance on all non-interest bearing transaction accounts and mandated participation by all member banks such as the Bank. This requirement and mandate expired on December 31, 2012, at which time unlimited FDIC insurance on non-interest bearing transaction accounts came to an end. Upon expiration, the standard maximum FDIC insurance coverage returned to $250,000 for non-interest bearing transaction accounts. The expiration of the Program did not have a significant impact to the Company's deposit levels and the Company maintains significant readily available liquidity resources to fund any further outflows. While the Company has experienced deposit outflows since December 31, 2012, this is primarily attributed to seasonal cash flow variability of the Bank's clients.

Funding obtained through short-term wholesale or market sources averaged $52.1 million and $3.8 million for 2012 and 2011, respectively, and ended the year at $1.21 billion. The Company's liquidity position was also supported through longer-term borrowings (including the current portion of long-term debt) which averaged $833.8 million in 2012 compared with $803.3 million for 2011. Market sources of funds comprise a modest portion of total Bank funding and are managed within concentration and maturity guidelines reviewed by management and implemented by the Company's treasury department.

Liquidity is further provided by assets such as federal funds sold, balances held at the Federal Reserve Bank, and trading securities, which may be immediately converted to cash at minimal cost. The aggregate of these assets averaged $382.0 million during 2012 compared with $652.6 million in 2011. In addition, the Company has committed and unutilized secured borrowing capacity of $4.52 billion as of December 31, 2012 from the Federal Home Loan Bank of San Francisco, of which the Bank is a member. The Company's investment portfolio also provides a substantial secondary liquidity reserve. The portfolio of securities available-for-sale averaged $7.40 billion and $6.53 billion in 2012 and 2011, respectively. The unpledged portion of debt securities available-for-sale and held-to-maturity at fair value totaled $9.59 billion at December 31, 2012. These securities could be used as collateral for borrowing or a portion of available-for-sale securities could be sold.

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 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, 2012, as well as a dynamic simulation that includes changes to balance sheet mix in response to changes in interest rates. In the dynamic simulation, loans and deposit balances are modeled based on experience in previous vigorous economic recovery cycles. Loans, excluding covered loans, increase 10 percent per year compared to the base case. Similarly, deposits decline 5 percent per year. Loan yields and deposit rates change over the simulation horizon based on current spreads and adjustment factors that are statistically derived using historical rate and balance sheet data.

As of December 31, 2012, the Federal funds target rate was at a range of zero percent to 0.25 percent. At December 31, 2012, a gradual 400 basis point parallel increase in the yield curve over the next 24 months assuming a static balance sheet would result in an increase in projected net interest income of approximately 8.2 percent in year one and a 29.2 percent increase in year two. This compares to an increase in projected net interest income of approximately 6.1 percent in year one and a 22.7 percent increase in year two at December 31, 2011. Interest rate sensitivity has increased due to changes in the mix of the balance sheet, primarily significant growth in floating rate loans and non-rate sensitive deposits. The dynamic simulation incorporates balance sheet changes resulting from a gradual 400 basis point increase in rates. In combination, these rate and balance sheet effects result in an increase in projected net interest income of approximately 9.4 percent in year one and 33.5 percent increase in year two. Measurement of a gradual 400 basis point parallel decrease in rates is not meaningful due to the current low rate environment. However, low short-term interest rates have contributed to compression of the net interest margin. Net interest margin could decrease further should the current rate environment be sustained. 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, 2012. Each loan category is further divided into Floating, Adjustable and

Table of Contents

Fixed rate components. Floating rate loans are generally tied to either the Prime rate or to a LIBOR based index.

(in millions)	Floating Rate Prime	Floating Rate LIBOR	Floating Rate Total	Adjustable	Fixed	Total Loans
Commercial	$ 2,222	$ 3,280	$ 5,502	$ 74	$ 1,373	$ 6,949
Commercial real estate mortgages	358	1,286	1,644	78	1,107	2,829
Residential mortgages				2,496	1,466	3,962
Real estate construction	140	56	196		27	223
Equity lines of credit	712		712			712
Installment	81		81		62	143
Covered loans	63	126	189	642	200	1,031
Total loans and leases	$ 3,576	$ 4,748	$ 8,324	$ 3,290	$ 4,235	$ 15,849
Percentage of portfolio	22%	30%	52%	21%	27%	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, 2012, $8.32 billion (52 percent) of the Company's loan portfolio was floating rate, of which $6.32 billion (76 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, $1.37 billion (16 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 $73.9 million of floating rate loans have floors that are more than 2.00 percent above the contractual rate formula. Thus, the yield on the Company's floating rate loan portfolio is expected to be highly responsive to changes in market rates. The yield on the Company's covered loans is impacted by rates, as well as other factors. 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, 2012:

(in millions)	Loans with No Floor and Current Rate Greater than Floor	Interest Rate Increase Needed for Loans Currently at Floor Rate to Become Floating: < 0.75%	0.76% - 2.00%	> 2.00%	Total
Prime	$ 2,195	$ 904	$ 448	$ 29	$ 3,576
LIBOR	4,121	467	115	45	4,748
Total floating rate loans	$ 6,316	$ 1,371	$ 563	$ 74	$ 8,324
% of total floating rate loans	76%	16%	7%	1%	100%

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

Table of Contents

As of December 31, 2012, an instantaneous 200 basis point increase in interest rates results in a 3.4 percent decline in EVE. This compares to a 2.7 percent decline a year-earlier. The increase in sensitivity is due to changes in the mix of the balance sheet, primarily growth in the investment portfolio as deposit growth exceeded loan growth. Measurement of a 200 basis point decrease in rates as of December 31, 2012 and December 31, 2011 is 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 may be used to reduce cash flow variability and to moderate changes in the fair value of long-term financial instruments. Net interest income or expense associated with interest-rate swaps (the difference between the fixed and floating rates paid or received) is included in net interest income in the reporting periods in which they are earned. 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.

The notional amount of interest-rate swap hedge transactions, all of which were designated as fair value hedges of long-term debt, was $205.5 million and $207.4 million as of December 31, 2012 and 2011, respectively. The swaps mature on the same date as the Company's senior notes in February 2013. The fair value hedges have a positive fair value of $2.2 million and is comprised of a mark-to-market of $1.1 million and net interest receivable of $1.1 million. The balance of debt reported in the consolidated balance sheet has been increased by a $1.1 million mark-to-market adjustment associated with interest-rate hedge transactions. There were no cash flow hedges outstanding at December 31, 2012 and 2011.

The table below shows the notional amounts of the Company's interest-rate swap maturities and average rates at December 31, 2012 and December 31, 2011. 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)	2013	2014	2015	2016	2017	Thereafter	Total	Fair Value
December 31, 2012								
Notional amount	$ 205.5	$	$	$	$	$	$ 205.5	$ 2.2
Weighted average rate received	4.39%						4.39%	
Weighted average rate paid	0.31%						0.31%	

	2012	2013	2014	2015	2016	Thereafter	Total	Fair Value
December 31, 2011								
Notional amount	$	$ 207.4	$	$	$	$	$ 207.4	$ 9.8
Weighted average rate received		4.39%					4.39%	
Weighted average rate paid		0.45%					0.45%	

Table of Contents

The Company has not entered into any hedge transactions involving any other interest-rate derivative instruments, such as interest-rate floors, caps, and interest-rate futures contracts for its own portfolio in 2012 and 2011. Under existing policy, the Company could use such financial instruments in the future if deemed appropriate.

Other Derivatives

The Company also offers various derivative products to clients and enters into derivative transactions in due course. These derivative contracts are offset by paired trades with unrelated bank counterparties. These transactions are not linked to specific Company assets or liabilities in the consolidated balance sheets or to forecasted transactions in a hedge relationship and, therefore, do not qualify for hedge accounting. The contracts are marked-to-market each reporting period with changes in fair value recorded as part of Other noninterest income in the consolidated statements of income. Fair values are determined from verifiable 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, 2012 and 2011, the Company had entered into derivative contracts with clients (and offsetting derivative contracts with counterparties) having a notional balance of $2.49 billion and $1.75 billion, respectively.

Counterparty Risk and Collateral

Interest-rate swap agreements involve the exchange of fixed and variable-rate interest payments based upon a notional principal amount and maturity date. The Company's interest-rate swaps had $1.6 million and $5.3 million of credit risk exposure at December 31, 2012 and 2011, respectively. The credit exposure represents the cost to replace, on a present value basis and at current market rates, all contracts outstanding by trading counterparty having an aggregate positive market value, net of margin collateral received. The Company's swap agreements require the deposit of cash or marketable debt securities as collateral for this risk if it exceeds certain market value thresholds. These requirements apply individually to the Corporation and to the Bank. Collateral in the form of securities valued at $1.0 million and $5.0 million had been received from swap counterparties at December 31, 2012 and 2011, respectively. Additionally, the Company delivered collateral valued at $48.7 million on swap agreements at December 31, 2012.

Market Risk-Foreign Currency Exchange

The Company enters into foreign-exchange contracts with its clients and counterparty banks primarily for the purpose of offsetting or hedging clients' transaction and economic exposures arising out of commercial transactions. The Company's policies also permit taking proprietary currency positions within certain approved limits. The Company actively manages its foreign exchange exposures within prescribed risk limits and controls. At December 31, 2012, the Company's outstanding foreign exchange contracts, both proprietary and for customer accounts, totaled $231.4 million. The mark-to-market on foreign exchange contracts included in other assets and other liabilities totaled $1.5 million and $1.3 million at December 31, 2012, respectively.

BALANCE SHEET ANALYSIS

Total assets were $28.62 billion at December 31, 2012, an increase of 21 percent from $23.67 billion at December 31, 2011. Average assets were $25.24 billion for 2012, an increase of 12 percent from $22.53 billion for 2011. The increase in period-end and average assets from the prior year largely reflects loan growth and an increase in the securities portfolio due to deposit growth.

Total average interest-earning assets were $23.56 billion in 2012, up from $20.84 billion in 2011.

Table of Contents

Securities

At December 31, 2012, the Company had total securities of $10.72 billion, comprised of securities available-for-sale at fair value of $9.21 billion, securities held-to-maturity at amortized cost of $1.40 billion and trading securities at fair value of $115.1 million. The Company had total securities of $8.10 billion at December 31, 2011, comprised of securities available-for-sale at fair value of $7.57 billion, securities held-to-maturity at amortized cost of $467.7 million and trading securities at fair value of $62.0 million. The increase in total securities was a result of strong deposit growth. This growth in total securities was in addition to the reinvestment of scheduled maturities and paydowns and sales of 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 and held-to-maturity:

	December 31, 2012		December 31, 2011	
(in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Securities available-for-sale:				
U.S. Treasury	$ 20,393	$ 20,397	$ 19,163	$ 19,182
Federal agency Debt	2,344,374	2,349,202	1,967,928	1,973,862
Federal agency MBS	653,428	693,032	650,091	681,044
CMOs Federal agency	5,233,126	5,318,253	4,239,205	4,326,907
CMOs Non-agency	62,975	61,513	79,999	69,001
State and municipal	437,266	454,474	383,210	401,604
Other debt securities	305,340	307,417	106,051	99,074
Total available-for-sale debt securities	9,056,902	9,204,288	7,445,647	7,570,674
Equity securities and mutual funds	336	1,701	352	1,227
Total available-for-sale securities	$ 9,057,238	$ 9,205,989	$ 7,445,999	$ 7,571,901
Securities held-to-maturity (1):				
Federal agency Debt	$ 97,183	$ 101,215	$ 40,423	$ 41,203
Federal agency MBS	303,642	314,950	75,231	76,863
CMOs Federal agency	745,980	774,571	292,547	294,932
State and municipal	251,598	255,863	59,479	60,905
Total held-to-maturity securities	$ 1,398,403	$ 1,446,599	$ 467,680	$ 473,903

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

The duration of securities available-for-sale and held-to-maturity at December 31, 2012 was 2.9 years compared to 2.4 years at December 31, 2011. The duration of the $9.21 billion available-for-sale portfolio was 2.3 years at December 31, 2012. Changes in the fair value of securities available-for-sale will impact other comprehensive income, and thus shareholders' equity, on an after-tax basis. Securities held-to-maturity are presented in the consolidated balance sheets at amortized cost. Changes in the fair value of securities held-to-maturity do not have an impact on other comprehensive income.

At December 31, 2012, the available-for-sale securities portfolio had a net unrealized gain of $148.8 million, comprised of $163.3 million of unrealized gains and $14.5 million of unrealized losses. At December 31, 2011, the available-for-sale securities portfolio had a net unrealized gain of $125.9 million, comprised of $149.1 million of unrealized gains and $23.2 million of unrealized losses.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at December 31, 2012, except for mortgage-backed securities which are allocated

Table of Contents

according to the average life of expected cash flows. Average expected maturities will differ from contractual maturities because of the amortizing nature of the loan collateral and prepayment behavior of borrowers.

(in thousands)	One year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	Total
Securities available-for-sale:					
U.S. Treasury	$	$ 20,397	$	$	$ 20,397
Federal agency Debt	1,809,346	539,856			2,349,202
Federal agency MBS	4	441,236	251,792		693,032
CMOs Federal agency	226,935	4,925,990	165,328		5,318,253
CMOs Non-agency	8,344	33,336	19,833		61,513
State and municipal	90,659	266,203	73,630	23,982	454,474
Other	15,201	289,768	2,448		307,417
Total debt securities available-for-sale	$ 2,150,489	$ 6,516,786	$ 513,031	$ 23,982	$ 9,204,288
Amortized cost	$ 2,144,654	$ 6,410,472	$ 477,855	$ 23,921	$ 9,056,902
Securities held-to-maturity:					
Federal agency Debt	$	$	$	$ 97,183	$ 97,183
Federal agency MBS		2,453	301,189		303,642
CMOs Federal agency		123,436	622,544		745,980
State and municipal		14,757	191,269	45,572	251,598
Total debt securities held-to-maturity at amortized cost	$	$ 140,646	$ 1,115,002	$ 142,755	$ 1,398,403

Impairment Assessment

The Company performs a quarterly assessment of the debt and equity securities in its investment portfolio that have an unrealized loss to determine whether the decline in the fair value of these securities below their cost is other-than-temporary. Impairment is considered other-than-temporary when it becomes probable that an investor will be unable to recover the cost of an investment. The Company's impairment assessment takes into consideration factors such as the length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer, including events specific to the issuer or industry; defaults or deferrals of scheduled interest, principal or dividend payments; external credit ratings and recent downgrades; and whether the Company intends to sell the security and whether it is more likely than not it will be required to sell the security prior to recovery of its amortized cost basis. If a decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value which then becomes the new cost basis. The new cost basis is not adjusted for subsequent recoveries in fair value.

The Company recorded impairment losses in earnings on securities available-for-sale of $0.3 million, $0.7 million and $2.0 million for 2012, 2011 and 2010, respectively. The Company recognized $1.0 million, $4.2 million and $7.5 million of non-credit-related other-than-temporary impairment in AOCI on securities available-for-sale at December 31, 2012, 2011 and 2010, respectively. No impairment losses were recognized in earnings or AOCI for securities held-to-maturity in 2012.

Table of Contents

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,** **2012**	**2011**	**2010**
Non-agency CMOs	$ 291	$ 651	$ 1,738
Perpetual preferred stock			293
Total	$ 291	$ 651	$ 2,031

Of the total securities available-for-sale in an unrealized loss position at December 31, 2012, approximately $1.94 billion of securities with unrealized losses of $6.5 million were in a continuous unrealized loss position for less than 12 months and $55.9 million of securities with unrealized losses of $8.0 million were in a continuous loss position for more than 12 months. While the securities in a loss position at December 31, 2012 were comprised mostly of CMO securities, a significant portion of the total gross unrealized loss relates to collateralized debt obligation senior notes.

At December 31, 2011, approximately $1.28 billion of securities available-for-sale with unrealized losses of $4.2 million were in a continuous unrealized loss position for less than 12 months and $48.1 million of securities with unrealized losses of $19.0 million were in a continuous loss position for more than 12 months. While the securities in a loss position at December 31, 2011 were comprised mostly of federal agency CMOs and federal agency debt, a significant portion of the total gross unrealized loss related to non-agency CMOs.

See Note 5, *Securities*, of the Notes to Consolidated Financial Statements for further disclosures related to the securities portfolio.

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)	**2012**	**2011**	**2010**	**2009**	**2008**
Commercial	$ 6,211,353	$ 4,846,594	$ 4,136,874	$ 4,335,052	$ 4,433,755
Commercial real estate mortgages	2,829,694	2,110,749	1,958,317	2,161,451	2,184,688
Residential mortgages	3,962,205	3,763,218	3,552,312	3,533,453	3,414,868
Real estate construction	222,780	315,609	467,785	835,589	1,252,034
Equity lines of credit	711,750	741,081	733,741	734,182	635,325
Installment	142,793	132,647	160,144	172,566	173,779
Lease financing	737,720	399,487	377,455	374,615	349,810
Loans and leases, excluding covered loans	14,818,295	12,309,385	11,386,628	12,146,908	12,444,259
Less: Allowance for loan and lease losses	(277,888)	(262,557)	(257,007)	(288,493)	(224,046)
Loans and leases, excluding covered loans, net	14,540,407	12,046,828	11,129,621	11,858,415	12,220,213
Covered loans	1,031,004	1,481,854	1,857,522	1,851,821	
Less: Allowance for loan losses	(44,781)	(64,565)	(67,389)		
Covered loans, net	986,223	1,417,289	1,790,133	1,851,821	
Total loans and leases	$ 15,849,299	$ 13,791,239	$ 13,244,150	$ 13,998,729	$ 12,444,259
Total loans and leases, net	$ 15,526,630	$ 13,464,117	$ 12,919,754	$ 13,710,236	$ 12,220,213
Commercial	41.9%	39.4%	36.3%	35.7%	35.6%
Commercial real estate mortgages	19.1	17.1	17.2	17.8	17.6
Residential mortgages	26.7	30.6	31.2	29.1	27.4
Real estate construction	1.5	2.6	4.1	6.9	10.1
Equity lines of credit	4.8	6.0	6.5	6.0	5.1
Installment	1.0	1.1	1.4	1.4	1.4
Lease financing	5.0	3.2	3.3	3.1	2.8
Loans and leases, excluding covered loans	100.0%	100.0%	100.0%	100.0%	100.0%

Total loans and leases were $15.85 billion, $13.79 billion and $13.24 billion at December 31, 2012, 2011 and 2010, respectively. Total loans and leases, excluding covered loans, were $14.82 billion, $12.31 billion and $11.39 billion as of December 31, 2012, 2011 and 2010, respectively.

Total loans and leases, excluding covered loans, at December 31, 2012 increased 20 percent from December 31, 2011. The increase was due to both organic loan growth and the acquisition of FAEF in April 2012. Commercial loans, including lease financing, and commercial real estate mortgage loans increased 32 percent and 34 percent, respectively. Residential mortgage loans grew 5 percent. Construction loans decreased by 29 percent and now account for less than 2 percent of the Company's total non-covered loans. Installment loans increased 8 percent, while equity lines of credit were down 4 percent from 2011.

The following loan information excludes covered loans. Covered loans are discussed in more detail on page 84 of this section.

Commercial and Lease Financing

Commercial loans, including lease financing, were $6.95 billion at December 31, 2012, representing 46.9 percent of the loan portfolio, excluding covered loans, compared with $5.25 billion, or 42.6 percent of the loan portfolio, at December 31, 2011. The average outstanding loan balance per borrower in the commercial loan portfolio at December 31, 2012 was approximately $1.3 million. At December 31, 2012, commercial loans totaling approximately $9.2 million were on nonaccrual compared to $19.9 million at December 31, 2011.

To grow loans and diversify and manage concentration risk of the Company's loan portfolio, the Company purchases and sells participations in loans. Included in this portfolio are purchased participations in Shared National Credits ("SNC"). As of December 31, 2012, purchased SNC commitments totaled $2.98 billion, or 14 percent of total loan commitments. Outstanding loan balances on purchased SNCs were $1.32 billion, or approximately 9 percent of total loans outstanding, excluding covered loans at December 31, 2012. At December 31, 2011, purchased SNC commitments totaled $2.24 billion, and outstanding balances totaled $941.7 million. The increase in the purchased SNC portfolio during 2012 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)	**2012**	**%**	**2011**	**%**
Entertainment	$ 1,258,450	18.1	$ 1,104,287	21.1
Services (1)	1,170,484	16.8	884,939	16.9
Real estate owner/lessors (2)	775,611	11.2	524,014	10.0
Retail trade	694,731	10.0	527,379	10.1
Finance and insurance	602,026	8.7	445,211	8.5
Portfolio management	452,470	6.5	222,364	4.2
Manufacturing	422,676	6.1	397,811	7.6
Wholesale trade	398,016	5.7	319,604	6.1
Commercial banking	320,329	4.6	111,090	2.1
Public finance	291,605	4.2	305,201	5.8
Construction/development (2)	173,331	2.5	115,951	2.2
Transportation	133,122	1.9	102,049	1.9
Other	256,222	3.7	186,181	3.5
Total	$ 6,949,073	100.0	$ 5,246,081	100.0
Nonaccrual loans	$ 9,207		$ 19,888	
Percentage of total commercial loans	0.13%		0.38%	

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

(2) Not secured by real estate.

The entertainment and services industry represents approximately 18 percent and 17 percent of the Company's commercial loan portfolio at December 31, 2012. Loans and leases in the entertainment industry consist of a diversified portfolio of clients. The Company possesses significant industry knowledge, which contributes to the satisfactory risk management of the entertainment loan portfolio. It generally evaluates, underwrites and documents loan requests within the entertainment division in the same manner as it would for similar requests for clients in its other private client, commercial and corporate lending businesses. Commercial loans and leases in the services industry represent a diversified portfolio of loans to individuals and businesses involved in providing professional services in a broad range of areas including medical, legal, accounting, engineering, education, communications, advertising, rentals, and many others. There is no one area that accounts for 10 percent or more of the total loan and lease balances related to the services industry. While the entertainment and services industry may possess industry-specific risk elements, the Company believes that these risks are not significantly different from the industry risk relating to other types of commercial loans.

Residential Mortgage

Residential mortgage loans comprised 26.7 percent of total loans, excluding covered loans, at the end of 2012, and grew 5 percent to $3.96 billion at December 31, 2012. 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, with the exception of purchases made for CRA purposes and residential mortgage loans acquired in FDIC-assisted acquisitions. The average outstanding loan balance per borrower in the residential mortgage loan portfolio at December 31, 2012 was $1.0 million.

Table of Contents

At December 31, 2012, residential mortgage loans totaling $9.6 million were on nonaccrual compared to $9.8 million at December 31, 2011.

The residential first mortgage loans originated internally have an average loan-to-value ("LTV") ratio of 56 percent and 57 percent at origination for 2012 and 2011, respectively. 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 following table provides the composition of residential mortgage loans at December 31, 2012 by LTV ratio at origination:

Loan-to-value	**Residential mortgages**
Less than 60%	57.3%
Over 60% through 65%	12.9
Over 65% through 70%	10.5
Over 70% through 75%	13.1
Over 75% through 80%	6.0
Over 80%	0.2

The Company has no residential mortgage loans with option adjustable rate mortgage terms or that allow for negative amortization, but does offer interest-only loans. Excluding covered loans, there were interest-only residential mortgages totaling approximately $1.17 billion and home equity lines of credit totaling approximately $711.8 million as of December 31, 2012. As of December 31, 2011, there were interest-only residential mortgages totaling approximately $1.05 billion and home equity lines of credit totaling approximately $741.1 million. The underwriting criteria for interest-only residential mortgage loans is similar to fully amortizing residential mortgage loans. In addition, the loan loss methodology for interest-only loans is consistent with the methodology for fully amortizing loans. Overall performance of interest-only residential mortgage loans is consistent with the performance of the remainder of the residential mortgage portfolio.

Commercial Real Estate Mortgage

Commercial real estate mortgages, representing 19.1 percent of the loan portfolio, excluding covered loans, were comprised of 90.3 percent commercial properties and 9.7 percent multi-family condominium or apartment loans. The average outstanding loan balance per borrower in the commercial real estate mortgage portfolio at December 31, 2012 was $2.3 million. At December 31, 2012, commercial real estate mortgage loans totaling approximately $33.2 million were on nonaccrual compared to $21.9 million at December 31, 2011.

Table of Contents

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

Commercial Real Estate Mortgage Loans by Collateral Type

	December 31,			
(in thousands)	**2012**	**%**	**2011**	**%**
Industrial	$ 940,025	33.2	$ 760,636	36.0
Office buildings	595,975	21.0	463,680	22.0
Special purpose real estate	353,315	12.5	245,655	11.6
Shopping centers	297,558	10.5	230,601	10.9
Condominiums/apartments	275,267	9.7	185,573	8.8
Mini-storage	84,345	3.0	53,459	2.5
Auto dealerships	33,794	1.2	31,679	1.5
Land, agriculture	21,515	0.8	31,126	1.5
Non-profit (religious/schools)	12,803	0.5	13,159	0.6
Other	215,097	7.6	95,181	4.6
Total	$ 2,829,694	100.0	$ 2,110,749	100.0
Nonaccrual loans	$ 33,198		$ 21,948	
Percentage of total commercial real estate mortgage loans	1.17%		1.04%	

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 1.5 percent of the loan portfolio, excluding covered loans, and a significant majority of the loans have guarantors. The real estate construction portfolio includes approximately $26.5 million of loans to borrowers in the for-sale housing industry compared to $48.8 million as of December 31, 2011. 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, 2012 was $4.1 million. At December 31, 2012, real estate construction loans totaling approximately $40.9 million were on nonaccrual compared to $50.9 million at December 31, 2011.

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)	**2012**	**%**	**2011**	**%**
Office buildings	$ 78,998	35.5	$ 52,724	16.7
Land, commercial	42,401	19.0	50,644	16.0
Condominiums/apartments	21,113	9.5	42,675	13.5
Land, residential	13,345	6.0	40,346	12.8
1-4 family	13,161	5.9	8,482	2.7
Shopping centers	11,208	5.0	33,776	10.7
Industrial	7,768	3.5	9,069	2.9
Other	34,786	15.6	77,893	24.7
Total	$ 222,780	100.0	$ 315,609	100.0
Nonaccrual loans	$ 40,882		$ 50,876	
Percentage of total real estate construction loans	18.35%		16.12%	

Equity Lines of Credit

Equity lines of credit which comprised 4.8 percent of total loans, excluding covered loans, at December 31, 2012 are made primarily to existing clients. The average outstanding loan balance per borrower in the equity lines of credit portfolio at December 31, 2012 was $0.3 million. At December 31, 2012, equity lines of credit totaling approximately $6.4 million were on nonaccrual compared to $8.7 million at December 31, 2011.

Equity lines of credit originated internally have an average cumulative LTV ratio of 52 percent and 53 percent at origination for 2012 and 2011, respectively. 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 following table provides the composition of equity lines of credit at December 31, 2012 by LTV ratio at origination:

Loan-to-value	**Equity lines of credit**
Less than 60%	60.7%
Over 60% through 65%	15.3
Over 65% through 70%	9.7
Over 70% through 75%	8.3
Over 75% through 80%	4.1
Over 80%	1.9

At December 31, 2012, approximately 38 percent, or $195.1 million, of the Company's second mortgage portfolio is comprised of loans where the Company also holds the first lien loan. For those loans in the second mortgage portfolio where the Company does not hold the first lien loan, the Company has a process in place to identify when borrowers have defaulted on their first mortgage and the first mortgagor has filed a notice of default. The Company has had a low default experience in its home equity portfolio.

Table of Contents

Installment

Installment loans consist primarily of loans to individuals for personal purchases. At December 31, 2012, installment loans comprised 1.0 percent of total loans, excluding covered loans. The average outstanding loan balance per borrower in the installment loan portfolio at December 31, 2012 was $0.1 million. Installment loans totaling approximately $0.5 million were on nonaccrual at December 31, 2012 compared to $0.9 million at December 31, 2011.

Covered Loans

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements and were $1.03 billion, $1.48 billion and $1.86 billion at December 31, 2012, 2011 and 2010, respectively. Covered loans, net of allowance for loan losses, were $986.2 million, $1.42 billion and $1.79 billion as of December 31, 2012, 2011 and 2010.

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

	December 31,			
(in thousands)	**2012**	**2011**	**2010**	**2009**
Commercial	$ 10,561	$ 30,911	$ 55,082	$ 10,337
Commercial real estate mortgages	931,758	1,288,352	1,569,739	1,640,828
Residential mortgages	5,652	14,931	18,380	7,477
Real estate construction	78,554	140,992	204,945	193,179
Equity lines of credit	3,790	5,167	6,919	
Installment	689	1,501	2,457	
Covered loans	1,031,004	1,481,854	1,857,522	1,851,821
Less: Allowance for loan losses	(44,781)	(64,565)	(67,389)	
Covered loans, net	$ 986,223	$ 1,417,289	$ 1,790,133	$ 1,851,821

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

At acquisition date, the Company recorded an indemnification asset for its FDIC-assisted acquisitions. The FDIC indemnification asset represents the present value of the expected reimbursement from the FDIC related to expected losses on acquired loans, OREO and unfunded loan commitments. The FDIC indemnification asset from all FDIC-assisted acquisitions was $150.0 million at December 31, 2012 and $204.3 million at December 31, 2011.

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.

Table of Contents

Loan Maturities

(in millions)	Commercial	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Equity Lines of Credit	Installment	Covered Loans	Total
	December 31, 2012							
Aggregate maturities of balances due:								
In one year or less								
Interest rate floating	$ 2,157	$ 153	$	$ 85	$ 23	$ 78	$ 53	$ 2,549
Interest rate fixed	241	44	6	16		53	38	398
After one year but within five years								
Interest rate floating	2,723	764		112	56	3	232	3,890
Interest rate fixed	712	372	22	6		7	85	1,204
After five years								
Interest rate floating	696	805	2,495		633		545	5,174
Interest rate fixed	420	691	1,439	4		2	78	2,634
Total loans	$ 6,949	$ 2,829	$ 3,962	$ 223	$ 712	$ 143	$ 1,031	$ 15,849
Percentage of floating rate loans to total loans	80%	61%	63%	88%	100%	57%	81%	73%

Floating-rate loans comprised 73 percent of the total loan portfolio at December 31, 2012 compared to 70 percent at December 31, 2011. Hybrid loans, which convert from fixed to floating rates, are included in floating-rate loans.

Other

Bank regulatory guidance on risk management practices for financial institutions with high or increasing concentrations of commercial real estate ("CRE") loans on their balance sheets emphasizes the need for sound internal risk management practices for those institutions that have experienced rapid growth in CRE lending, have notable exposure to specific types of CRE, or are approaching or exceeding the supervisory criteria used to evaluate CRE concentration risk. The supervisory criteria are: total reported loans for construction, land development and other land represent 100 percent of the institution's total risk-based capital, and both total CRE loans represent 300 percent or more of the institution's total risk-based capital and the institution's CRE loan portfolio has increased 50 percent or more within the last 36 months. As of December 31, 2012, total loans for construction, land development and other land represented 13 percent of total risk-based capital; total CRE loans represented 142 percent of total risk-based capital and the total portfolio of loans for construction, land development, other land and CRE decreased 13 percent over the last 36 months. The decrease in real estate loans from year-end 2009 is largely due to the payoff or other settlement of loans acquired through the FDIC-assisted acquisition of Imperial Capital Bank in the fourth quarter of 2009.

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

Table of Contents

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

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
- An evaluation of borrower and guarantor credit history
- 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

Table of Contents

Equity Lines of Credit

- Debt to income ratios
- An evaluation of borrower and guarantor credit history
- 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 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. The Company decreased its loan-to-value guidelines for certain categories of real estate-related loans in 2012 in response to current economic conditions. These ratios exclude acquired loans that are covered by FDIC loss-sharing agreements 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	70

Shopping centers	70
Office building	65
Churches/religious	60
Other improved property	60
Acquisition and development	45
Land, nonresidential	35

Table of Contents

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 $375.5 million at December 31, 2012, 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 problem loans and OREO. Also, the Company has established portfolio review requirements that include a periodic review and risk assessment by the Risk Management Division that reports to the Audit & Risk Committee of the Board of Directors.

Geographic Concentrations and Economic Trends by Geographic Region

Excluding covered loans, at December 31, 2012, California represented 80 percent of total loans outstanding and New York and Nevada represented 7 percent and 2 percent, respectively. The remaining 11 percent of total loans outstanding represented other states. Although the Company's lending activities are predominately in California, and to a lesser extent, New York and Nevada, the Company has various specialty lending businesses that lend to businesses located throughout the United States of America.

Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of Southern California. California has experienced significant declines in real estate values and adverse effects of the recession. California's unemployment rate in December 2012 was 9.8 percent. While down from 11 percent in December 2011, California's unemployment rate remains higher than the national average. The Company's loan portfolio has been affected by the economy, but the impact is lessened by the Company having most of its loans in large metropolitan California cities such as Los Angeles, San Francisco and San Diego rather than in the outlying suburban communities that have seen higher declines in real estate values. Within the Company's Commercial loan portfolio, the five California counties with the largest exposures are Los Angeles (47 percent), Orange (5 percent), San Diego (4 percent), San Francisco (2 percent) and Ventura (2 percent). Within the Commercial Real Estate Mortgage loan portfolio, the five California counties with the largest exposures are Los Angeles (37 percent), San Diego (11 percent), Orange (10 percent), Ventura (4 percent) and Alameda (4 percent). For the Real Estate Construction loan portfolio, the concentration in California is

Table of Contents

predominately in Los Angeles (28 percent), Orange (10 percent), San Diego (8 percent), Ventura (8 percent) and Alameda (7 percent).

Southern California is slowly seeing some improvement from the economic downturn as evidenced by a reduction in unemployment, an increase in consumer spending, and improving median home prices among other factors. The state of the residential and commercial real estate sectors 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 commercial activities, lease terms, cap rates and the credit strength of tenant among other attributes.

Table of Contents

The table below presents vacancy and rent trends for each product type by market areas in California for 2012 and 2011. Rents generally improved for all product types and vacancy rates declined compared to the prior year.

	Rents			Vacancy %	
(in millions) Product Type and Market Areas	4th Quarter 2012	4th Quarter 2011	% Change	2012	2011
Apartments *(Average monthly rent per unit)*					
Los Angeles County	$ 1,421	$ 1,366	4.0%	3.3%	3.9%
Orange County	1,553	1,499	3.6	3.7	4.0
San Bernardino/Riverside County	1,052	1,016	3.5	4.0	4.8
San Diego County	1,365	1,328	2.8	2.7	3.1
Ventura County	1,417	1,379	2.8	3.3	3.9
San Francisco County	1,970	1,865	5.6	3.2	3.3
Oakland/East Bay	1,371	1,310	4.7	3.1	3.8
San Jose	1,616	1,533	5.4	2.8	2.9
Industrial *(Average annual rent per square foot)*					
Los Angeles County	$ 5.52	$ 5.43	1.7%	4.4%	5.1%
Orange County	5.96	5.84	2.1	4.3	4.8
San Bernardino/Riverside County	4.05	3.94	2.8	8.1	8.8
San Diego County	6.21	6.08	2.1	7.7	9.0
Ventura County	6.74	6.90	(2.3)	6.7	5.6
San Francisco County	6.32	6.24	1.3	12.0	13.1
Oakland/East Bay	4.70	4.61	2.0	10.3	11.1
San Jose	6.45	6.34	1.7	16.9	17.9
Retail *(Average annual rent per square foot)*					
Los Angeles County	$ 25.53	$ 25.28	1.0%	6.2%	6.5%
Orange County	26.94	26.76	0.7	5.6	6.0
San Bernardino/Riverside County	17.74	17.87	(0.7)	10.0	10.6
San Diego County	25.44	25.19	1.0	6.3	6.7
Ventura County	24.98	24.71	1.1	9.4	9.3
San Francisco County	29.63	29.81	(0.6)	3.7	3.7
Oakland/East Bay	24.75	24.79	(0.2)	6.3	6.5
San Jose	26.36	26.66	(1.1)	6.1	6.0
Office *(Average annual rent per square foot)*					
Los Angeles County	$ 26.40	$ 26.01	1.5%	15.7%	14.9%
Orange County	20.34	20.03	1.5	18.2	19.8
San Bernardino/Riverside County	17.06	17.09	(0.2)	24.5	24.7
San Diego County	22.85	22.64	0.9	16.4	17.9
Ventura County	20.67	20.68	(0.0)	16.3	16.9
San Francisco County	34.99	32.30	8.3	13.8	14.7
Oakland/East Bay	20.32	20.18	0.7	18.5	18.7
San Jose	24.38	23.31	4.6	19.0	21.9

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 during the economic down-turn. However, conditions in Nevada are slowly improving. Unemployment remained high at 10.2 percent for December 2012, but private-sector jobs and tourism were up. There have been signs of improvement, but the consensus outlook for

Table of Contents

2013 is that the Nevada economy will remain challenged in part due to its troubled real estate sector. The Company's construction and land portfolios in Nevada, which had been affected by significant stress in prior years, now represent 0.2 percent of total loans, excluding covered loans. Other commercial real estate property loans in Nevada represent less than 1 percent of total loans, excluding covered loans. The Company has very few residential mortgage loans in Nevada. The New York loan portfolio primarily relates to private banking clients in the Entertainment and Legal industries which continue to perform well.

Within the Company's covered loan portfolio at December 31, 2012, the five states with the largest concentration were California (38 percent), Texas (12 percent), Nevada (8 percent), Ohio (4 percent) and New York (4 percent). The remaining 34 percent of total covered loans outstanding represented other states.

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

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

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

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

	For the year ended December 31,				
(in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Loans and leases outstanding, excluding covered loans	$ 14,818,295	$ 12,309,385	$ 11,386,628	$ 12,146,908	$ 12,444,259
Average loans and leases outstanding, excluding covered loans	$ 13,285,220	$ 11,698,388	$ 11,576,380	$ 12,296,619	$ 12,088,715
Allowance for loan and lease losses (1)					
Balance, beginning of the year	$ 262,557	$ 257,007	$ 288,493	$ 224,046	$ 168,523
Loan charge-offs:					
Commercial	(24,407)	(30,512)	(69,427)	(93,590)	(25,257)
Commercial real estate mortgages	(1,611)	(4,573)	(29,833)	(8,775)	(552)
Residential mortgages	(2,402)	(1,475)	(3,327)	(2,514)	
Real estate construction	(9,769)	(8,897)	(36,020)	(125,358)	(44,097)
Equity lines of credit	(1,258)	(1,834)	(2,120)	(2,016)	
Installment	(1,066)	(914)	(2,529)	(5,018)	(1,116)
Total charge-offs	(40,513)	(48,205)	(143,256)	(237,271)	(71,022)
Recoveries of loans previously charged-off:					
Commercial	34,848	15,742	6,131	5,908	2,034
Commercial real estate mortgages	1,527	11,515	235	112	
Residential mortgages	823	392	130	109	62
Real estate construction	8,309	13,927	5,436	4,907	348
Equity lines of credit	95	68	152	2	
Installment	1,982	1,179	875	317	100
Total recoveries	47,584	42,823	12,959	11,355	2,544
Net loan recoveries (charge-offs)	7,071	(5,382)	(130,297)	(225,916)	(68,478)
Provision for credit losses	10,000	12,500	103,000	285,000	127,000
Transfers (to) from reserve for off-balance sheet credit commitments	(1,740)	(1,568)	(4,189)	5,363	(2,999)
Balance, end of the year	$ 277,888	$ 262,557	$ 257,007	$ 288,493	$ 224,046
Net recoveries (charge-offs) to average loans and leases, excluding covered loans	0.05%	(0.05)%	(1.13)%	(1.84)%	(0.57)%
Allowance for loan and lease losses to total period-end loans and leases, excluding covered loans	1.88%	2.13%	2.26%	2.38%	1.80%
Reserve for off-balance sheet credit commitments					
Balance, beginning of the year	$ 23,097	$ 21,529	$ 17,340	$ 22,703	$ 19,704
Transfers from (to) allowance	1,740	1,568	4,189	(5,363)	2,999
Balance, end of the year	$ 24,837	$ 23,097	$ 21,529	$ 17,340	$ 22,703

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

Net loan recoveries on non-covered loans were $7.1 million in 2012, compared to net charge-offs of $5.4 million in 2011, $130.3 million in 2010, $225.9 million in 2009 and $68.5 million in 2008. Total loan-charge-offs have significantly declined from prior periods and loan recoveries have grown from $2.5 million in 2008 to $47.6 million in 2012. While the Company has recognized significant recoveries

Table of Contents

in its commercial and real estate construction loan portfolio during 2012 and 2011, the majority of the activity relates to a small group of individual credits. This activity is not necessarily of a recurring nature and not indicative of a trend for future recoveries.

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) (1)	**2012**	**2011**	**2010**	**2009**	**2008**	**2012**	**2011**	**2010**	**2009**	**2008**
Commercial and lease financing	$ 104,156	$ 82,965	$ 82,451	$ 110,547	$ 77,323	37%	32%	32%	38%	35%
Commercial real estate mortgages	48,240	45,967	52,516	52,011	33,889	17	17	20	18	15
Residential mortgages	10,499	14,029	16,753	12,797	7,033	4	5	7	4	3
Real estate construction	13,130	23,347	40,824	53,722	48,401	5	9	16	19	22
Equity lines of credit	7,243	8,024	7,229	3,734	2,772	3	3	3	1	1
Installment	1,847	1,959	3,931	4,665	2,983	1	1	1	2	1
Unallocated	92,773	86,266	53,303	51,017	51,643	33	33	21	18	23
Total	$ 277,888	$ 262,557	$ 257,007	$ 288,493	$ 224,044	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 Company has a qualitative factor matrix to determine the amount of unallocated reserves needed for judgmental factors that are not attributable to or reflected in quantitative models. Examples of these factors include industry concentration, size of loans, general business and economic environment, internal systems and procedures, credit quality trends, changes in underwriting standards, risk appetite, loan growth and acquisitions. The qualitative factor matrix is divided into three segments: Commercial Real Estate, Commercial and Consumer. For each segment, the matrix evaluates the qualitative factors that could cause the quantitative models to vary from historic loss values. Each factor is assigned a risk level and a risk weight in points which is aggregated to determine the level of qualitative reserves. The factors are updated and supported quarterly to reflect changing conditions. At December 31, 2012, the Company had total qualitative reserves of $92.8 million, of which $25.2 million, $43.3 million and $24.3 million were assigned to the Commercial Real Estate, Commercial and Consumer segments, respectively. Currently, the primary drivers of the qualitative reserves are uncertainty in the macroeconomic environment in California and Nevada, industry concentration and loan size.

The following table summarizes the activity in the allowance for losses on covered loans for the years ended December 31, 2012, 2011 and 2010:

	For the year ended December 31,		
(in thousands)	**2012**	**2011**	**2010**
Balance, beginning of period	$ 64,565	$ 67,389	$
Provision for losses	45,346	43,646	76,218
Charge-offs		(325)	(414)
Reduction in allowance due to loan removals	(65,130)	(46,145)	(8,415)
Balance, end of period	$ 44,781	$ 64,565	$ 67,389

Table of Contents

The allowance for losses on covered loans was $44.8 million, $64.6 million and $67.4 million as of December 31, 2012, 2011 and 2010, respectively. There was no allowance for losses on covered loans at December 31, 2009 and 2008. The Company recorded provision expense of $45.3 million, $43.6 million and $76.2 million on covered loans in 2012, 2011 and 2010, respectively. The Company updates its cash flow projections for covered loans accounted for under ASC 310-30 on a quarterly basis, and may recognize provision expense and an allowance for loan losses as a result of that analysis. The loss on covered loans is the result of changes in expected cash flows, both amount and timing, due to loan payments and the Company's revised loss and prepayment forecasts. The revisions of the loss and prepayment forecasts were based on the results of management's review of the credit quality of the outstanding covered loans and the analysis of the loan performance data since the acquisition of covered loans. The allowance for losses on covered loans is reduced for any loan removals, which occur when a loan has been fully paid-off, fully charged off, sold or transferred to OREO.

Appraisals

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.

Appraisals are ordered and reviewed by the Company's Appraisal Department. 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 and all 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.

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.

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.

Effective July 1, 2012, the Company increased the outstanding loan amount under which nonperforming loans are individually evaluated for impairment from $500,000 or greater to $1 million

Table of Contents

or greater. For borrowers with multiple loans totaling $1 million or more, this threshold is applied at the total relationship level. Loans under $1 million will be measured for impairment using historical loss factors. Loans under $1 million that were previously reported as impaired at June 30, 2012 will continue to be reported as impaired until the collection of principal and interest is no longer in doubt, or the loans are paid or charged-off. At December 31, 2012, impaired loans included $9.3 million of loans previously reported as impaired that are less than $1 million.

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

	December 31,			
	2012		2011	
(in thousands)	Loans and Leases	Related Allowance	Loans and Leases	Related Allowance
Impaired loans, excluding covered loans (1):				
Impaired loans with an allowance	$ 19,081	$ 2,403	$ 49,079	$ 13,262
Impaired loans with no related allowance	119,511		99,655	
Total impaired loans, excluding covered loans	$ 138,592		$ 148,734	
Total impaired loans by loan type:				
Commercial	$ 26,277	$ 952	$ 25,780	$ 7,135
Commercial real estate mortgages	53,085	1,326	30,678	1,551
Residential mortgages	8,810	9	9,146	108
Real estate construction	45,510		75,811	4,377
Equity lines of credit	4,461	116	6,633	91
Installment	449		658	
Lease financing			28	
Total impaired loans, excluding covered loans	$ 138,592	$ 2,403	$ 148,734	$ 13,262
Impaired covered loans	$		$ 422	

(1) Impaired loans include $48.8 million and $46.6 million of troubled debt restructured loans on accrual status at December 31, 2012 and 2011, respectively.

The recorded investment in impaired loans, excluding covered loans, was $138.6 million at December 31, 2012 compared to $148.7 million at December 31, 2011. There were no impaired covered loans at December 31, 2012. Impaired covered loans were $0.4 million at December 31, 2011, and are included in the Company's population of acquired covered loans that are accounted for outside the scope of ASC 310-30.

Nonaccrual, Past Due and Restructured Loans

Total nonperforming assets (nonaccrual loans and OREO), excluding covered assets, were $120.8 million, or 0.81 percent of total loans and OREO, excluding covered assets, at December 31, 2012, compared with $142.8 million, or 1.16 percent, at December 31, 2011. Total nonperforming covered assets (nonaccrual covered loans and covered OREO) were $58.3 million and $99.0 million at December 31, 2012 and December 31, 2011, respectively.

Troubled debt restructured loans were $94.9 million, before specific reserves of $1.7 million, at December 31, 2012. At December 31, 2011, troubled debt restructured loans were $89.4 million, before specific reserves of $1.7 million. Troubled debt restructured loans included $48.8 million and $46.6 million of restructured loans on accrual status at December 31, 2012 and 2011, respectively. As of December 31, 2012, commitments to lend additional funds on restructured loans totaled $3.7 million.

Table of Contents

The following table presents information concerning nonaccrual loans and OREO:

(in thousands)	December 31, 2012	2011	2010	2009	2008
Nonperforming assets, excluding covered assets					
Nonaccrual loans, excluding covered loans					
Commercial	$ 9,087	$ 19,888	$ 19,498	$ 76,103	$ 46,238
Commercial real estate mortgages	33,198	21,948	44,882	76,027	8,924
Residential mortgages	9,603	9,771	18,721	15,488	3,171
Real estate construction	40,882	50,876	98,209	202,605	149,536
Equity lines of credit	6,424	8,669	6,782	3,422	1,921
Installment	473	874	590	9,176	1,352
Lease financing	120		2,241	5,886	
Total nonaccrual loans, excluding covered loans	99,787	112,026	190,923	388,707	211,142
OREO, excluding covered OREO	21,027	30,790	57,317	53,308	11,388
Total nonperforming assets, excluding covered assets	$ 120,814	$ 142,816	$ 248,240	$ 442,015	$ 222,530
Nonperforming covered assets					
Nonaccrual loans	$	$ 422	$ 2,557	$	$
OREO	58,276	98,550	120,866	60,558	
Total nonperforming covered assets	$ 58,276	$ 98,972	$ 123,423	$ 60,558	$
Ratios (excluding covered assets):					
Nonaccrual loans as a percentage of total loans	0.67%	0.91%	1.68%	3.20%	1.70
Nonperforming assets as a percentage of total loans and OREO	0.81	1.16	2.17	3.62	1.79
Allowance for loan and lease losses to nonaccrual loans	278.48	234.37	134.61	74.22	106.11
Allowance for loan and lease losses to total nonperforming assets	230.01	183.84	103.53	65.27	100.68
Allowance for loan and lease losses to total loans and leases	1.88	2.13	2.26	2.38	1.80

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

Table of Contents

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

(in thousands)	2012	2011	December 31, 2010	2009	2008
Past due loans, excluding covered loans					
30-89 days past due	$ 40,086	$ 17,978	$ 35,377	$ 55,699	$ 128,568
90 days or more past due on accrual status:					
Commercial	602		904	3,651	
Commercial real estate mortgages				1,582	
Residential mortgages	379	379	379	456	663
Equity lines of credit		74			
Lease financing			1,216		
Total 90 days or more past due on accrual status	$ 981	$ 453	$ 2,499	$ 5,689	$ 663
Past due covered loans					
30-89 days past due	$ 43,437	$ 49,111	$ 99,506	$ 107,680	$
90 days or more past due on accrual status	112,396	330,169	399,019	173,309	

Nonaccrual loans, excluding covered loans, were $99.8 million at December 31, 2012, down from $112.0 million at December 31, 2011 and $190.9 million at December 31, 2010. Net loan recoveries in 2012 were $7.1 million, or 0.05 percent of average loans and leases, excluding covered loans, compared to net loan charge-offs of $5.4 million, or 0.05 percent, in 2011 and $130.3 million, or 1.13 in 2010. While credit quality has improved from prior years, the Company's loan portfolio has experienced significant growth during 2012. In accordance with the Company's allowance for loan and lease losses methodology and in response to loan growth, the Company recorded provision expense of $10.0 million in 2012 compared to $12.5 million in 2011.

The allowance for loan and lease losses, excluding covered loans, was $277.9 million as of December 31, 2012, compared with $262.6 million as of December 31, 2011 and $257.0 million as of December 31, 2010. The ratio of the allowance for loan and lease losses as a percentage of total loans and leases, excluding covered loans, was 1.88 percent, 2.13 percent and 2.26 percent at December 31, 2012, 2011 and 2010, respectively. The allowance for loan and lease losses as a percentage of nonperforming assets, excluding covered assets, was 230.0 percent, 183.8 percent and 103.5 percent at December 31, 2012, 2011 and 2010, respectively. The Company believes that its allowance for loan and lease losses continues to be adequate.

All nonaccrual loans greater than $1,000,000 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.

Table of Contents

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

Changes in Nonaccrual Loans

(in thousands)	2012	2011
Balance, beginning of the year	$ 112,448	$ 193,480
Loans placed on nonaccrual	83,304	99,350
Charge-offs	(23,776)	(36,189)
Loans returned to accrual status	(12,217)	(23,362)
Repayments (including interest applied to principal)	(48,416)	(101,308)
Transfers to OREO	(11,556)	(19,523)
Balance, end of the year	$ 99,787	$ 112,448

The additional interest income that would have been recorded from nonaccrual loans, if the loans had not been on nonaccrual status was $7.1 million, $14.0 million and $16.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. Interest income not recognized on nonaccrual loans reduced the net interest margin by 3, 7 and 8 basis points for the years ended December 31, 2012, 2011 and 2010, respectively.

In addition to loans disclosed above as past due or nonaccrual, management has also identified $18.8 million of loans to 21 borrowers as of February 4, 2013, 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, 2012, and the identification of these loans is not necessarily indicative of whether the loans will be placed on nonaccrual status. This amount was determined based on analysis of information known to management about the borrowers' financial condition and current economic conditions. In the Form 10-Q for the period ended September 30, 2012, the Company reported that management had identified $24.0 million of loans to 10 borrowers where the ability to comply with the loan payment terms in the future was questionable. Management's classification of credits as nonaccrual, restructured or problems does not necessarily indicate that the principal is uncollectible in whole or part.

Other Real Estate Owned

The following table provides a summary of OREO activity for 2012 and 2011:

	2012			2011		
(in thousands)	Non-Covered OREO	Covered OREO	Total	Non-Covered OREO	Covered OREO	Total
Balance, beginning of year	$ 30,790	$ 98,550	$ 129,340	$ 57,317	$ 120,866	$ 178,183
Additions	14,177	50,377	64,554	18,486	102,541	121,027
Sales	(17,147)	(70,211)	(87,358)	(40,413)	(83,414)	(123,827)
Valuation adjustments	(6,793)	(20,440)	(27,233)	(4,600)	(41,443)	(46,043)
Balance, end of year	$ 21,027	$ 58,276	$ 79,303	$ 30,790	$ 98,550	$ 129,340

OREO was $79.3 million and $129.3 million as of December 31, 2012 and 2011, respectively. The OREO balance for year end 2012 includes covered OREO of $58.3 million compared with $98.6 million at year end 2011. The balance of OREO at December 31, 2012 and 2011 is net of valuation allowances of $33.6 million and $37.4 million, respectively.

Table of Contents

The Company recognized $10.9 million in total net gain on the sale of OREO in 2012, compared to a $20.3 million net gain in 2011. Net gain on the sale of OREO in 2012 included $7.7 million of net gain related to the sale of covered OREO compared to net gain of $16.3 million in 2011.

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

Goodwill and Other Intangible Assets

Goodwill was $642.6 million and $486.4 million at December 31, 2012 and 2011, respectively. Other intangible assets were $48.1 million and $36.4 million for the same periods. Other intangible assets consist of core deposit intangibles and intangible assets relating to client advisory contracts and other client service contracts. The increase in goodwill and other intangible assets from prior year was a result of the acquisition of FAEF and Rochdale during 2012.

Management completed an assessment of goodwill and other intangible assets for impairment during the fourth quarter of 2012. Based upon the assessment performed, the Company's management concluded that goodwill and other intangible assets were not impaired at December 31, 2012.

Other Assets

The following table presents information on other assets:

(in thousands)	December 31, 2012	December 31, 2011
Accrued interest receivable	$ 70,359	$ 67,257
Deferred compensation fund assets	62,993	53,648
Stock in government agencies	90,039	107,423
Private equity and alternative investments	36,091	39,919
Bank-owned life insurance	82,935	80,337
Mark-to-market on derivatives	67,496	62,230
Income tax receivable	59,578	40,300
Prepaid FDIC assessment	20,857	36,975
FDIC receivable	9,485	19,763
Equipment on operating leases, net	24,763	
Other	76,564	69,689
Total other assets	$ 601,160	$ 577,541

Deposits

Deposits totaled $23.50 billion as of December 31, 2012, an increase of 15 percent from $20.39 billion as of December 31, 2011. Average deposits were $21.63 billion in 2012, an increase of 12 percent from $19.31 billion in 2011. Core deposits, which include noninterest-bearing deposits and interest-bearing deposits excluding time deposits of $100,000 and over, provide a stable source of low cost funding. Average core deposits were $20.94 billion and $18.51 billion in 2012 and 2011, respectively, and represented 97 percent and 96 percent of total average deposits for the same periods. Average non-interest bearing deposits for 2012 increased 31 percent from 2011.

Table of Contents

Certificates of deposit of $100,000 or more totaled $564.5 million at December 31, 2012, of which $164.3 million mature within three months, $275.9 million mature within four months to one year and $124.3 million mature beyond one year.

At December 31, 2012 and 2011, the aggregate amount of deposits by foreign depositors in domestic offices totaled $311.2 million and $219.9 million, respectively. Brokered deposits were $47.8 million and $26.5 million at December 31, 2012 and 2011, respectively.

Treasury Services deposit balances, which consist primarily of title, escrow, community association and property management deposits, averaged $2.21 billion in 2012, up 25 percent from $1.77 billion in 2011. The increase reflects higher residential refinance activity, as well as sales of existing homes during the quarter.

Borrowed Funds

Total borrowed funds as of December 31, 2012 were $2.13 billion, compared to $747.8 million as of December 31, 2011. Total average borrowed funds were $885.8 million and $807.1 million in 2012 and 2011, respectively.

Short-term borrowings consist of funds with remaining maturities of one year or less and the current portion of long-term debt. Short-term borrowings were $1.42 billion as of December 31, 2012 compared to $50.0 million as of December 31, 2011. Short-term borrowings at December 31, 2012 consist primarily of federal funds purchased and the current portion of senior notes maturing in February 2013.

Long-term debt consists of borrowings with remaining maturities greater than one year and is primarily comprised of senior notes, subordinated debt, junior subordinated debt and nonrecourse debt. Long-term debt was $706.1 million and $697.8 million as of December 31, 2012 and 2011, respectively. The Company's long-term borrowings have maturity dates ranging from January 2014 to November 2034.

On April 30, 2012, the Company assumed $320.9 million in borrowings in its acquisition of FAEF. Subsequent to the acquisition date, the Company paid off a significant portion of the outstanding balance and as of December 31, 2012, FAEF borrowings were comprised of $78.1 million of nonrecourse debt. FAEF assigns the future rentals of certain lease financing loans to financial institutions on a nonrecourse basis at fixed interest rates. In return for future minimum lease rentals assigned, FAEF receives a discounted cash payment. Proceeds from discounting are reflected as nonrecourse debt and classified as short-term borrowings or long-term debt based on its maturities.

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

Off-Balance Sheet

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and letters of credit; and to invest in affordable housing funds, private equity and other alternative investments. These instruments involve, 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 and letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making

Table of Contents

commitments and conditional obligations as it does for on-balance sheet instruments, and will evaluate each client's creditworthiness on a case-by-case basis.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company had off-balance sheet credit commitments totaling $6.48 billion at December 31, 2012 and $5.67 billion at December 31, 2011.

Standby letters of credit are commitments issued by the Company to guarantee the obligations of its customer to beneficiaries. Commercial letters of credit are issued on behalf of customers to ensure payment in connection with trade transactions. The Company had $765.0 million outstanding in letters of credit at December 31, 2012, of which $659.2 million relate to standby letters of credit and $105.8 million relate to commercial letters of credit. In 2011, the Company had $723.5 million outstanding in letters of credit, comprised of $609.8 million in standby letters of credit and $113.7 million in commercial letters of credit.

As of December 31, 2012, the Company had private equity fund and alternative investment fund commitments of $68.9 million, of which $61.3 million was funded. As of December 31, 2011, the Company had private equity fund and alternative investment fund commitments of $68.9 million, of which $57.9 million was funded.

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, 2012, and provides the expected cash payments 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.

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 (1)	$ 773,629	$ 616,164	$ 100,503	$ 55,243	$ 1,719
Subordinated and long-term debt (1)	1,212,422	253,045	111,711	106,988	740,678
Operating leases	335,808	41,667	87,294	74,701	132,146
Purchases of affiliate interests	24,532	5,560	12,140	2,692	4,140
Purchase obligations (2)	134,244	29,348	48,669	40,744	15,483
Contingent tax reserves	4,473		4,473		
Total contractual obligations	$ 2,485,108	$ 945,784	$ 364,790	$ 280,368	$ 894,166

(1) Includes contractual interest payments.

(2) 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, 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*, of the Notes to Consolidated Financial Statements for additional information on fair value measurements.

At December 31, 2012, $9.39 billion, or approximately 33 percent, of the Company's total assets were recorded at fair value on a recurring basis. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than one percent of total assets was measured using Level 3 inputs. At December 31, 2012, $122.5 million of the Company's total liabilities were recorded at fair value on a recurring basis using Level 1, Level 2 or Level 3 inputs. Redeemable noncontrolling interest of $41.1 million as reported in the mezzanine section of the consolidated balance sheet was recorded at fair value on a recurring basis using Level 3 inputs.

At December 31, 2012, $75.3 million, or approximately 0.3 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, 2012.

Capital

On November 13, 2012, the Corporation issued 7,000,000 depositary shares, each representing a 1/40th interest in a share of 5.50% Series C non-cumulative perpetual preferred stock with a liquidation preference of $1,000 per share (equivalent to $25.00 per depositary share). Net proceeds, after issuance cost, were approximately $169.9 million. Dividends on the preferred stock will be payable quarterly, in arrears, if declared by the Corporation's Board of Directors. The preferred stock has no maturity date and may be redeemed in whole or in part at the option of the Corporation on any dividend payment date after five years from the date of issuance.

The Corporation paid dividends of $1.50 per share of common stock in 2012 and $0.80 per share of common stock in 2011. Total dividends paid in 2012 included the December 18, 2012 payment of an accelerated quarterly common stock cash dividend of $0.25 per share and a special common stock dividend of $0.25 share. On January 24, 2013, the Board of Directors authorized a quarterly cash dividend of $13.75 per share on its 5.50 percent non-cumulative perpetual preferred stock, Series C (equivalent to $0.34375 per related depositary share), which is payable on February 13, 2013 to shareholders of record on February 7, 2013.

The ratio of period-end equity to period-end assets was 8.75 percent and 9.06 percent as of December 31, 2012 and 2011, respectively. Period-end common shareholders' equity to period-end assets was 8.16 percent and 9.06 percent as of December 31, 2012 and 2011, respectively.

At December 31, 2012, the Corporation's and the Bank's Tier 1 capital, which is comprised of shareholders' equity as modified by certain regulatory adjustments, amounted to $1.75 billion and $1.83 billion, respectively. At December 31, 2011, the Corporation's and the Bank's Tier 1 capital amounted to $1.57 billion and $1.86 billion, respectively.

Table of Contents

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

	Regulatory Well-Capitalized Standards	December 31, 2012	December 31, 2011
City National Corporation			
Tier 1 leverage	%	6.60%	6.77%
Tier 1 risk-based capital	6.00	9.41	10.26
Total risk-based capital	10.00	12.52	12.83
Tangible common shareholders' equity to tangible assets (1)		5.89	7.01
Tier 1 common shareholders' equity to risk-based assets (2)		8.47	10.22
City National Bank			
Tier 1 leverage	5.00%	6.92%	8.07%
Tier 1 risk-based capital	6.00	9.88	12.23
Total risk-based capital	10.00	12.93	14.68

(1) Tangible common shareholders' equity to tangible assets is a non-GAAP financial measure that represents total 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 equity as a measure of capital. See reconciliation of the GAAP financial measure to this non-GAAP financial measure below.

(2) Tier 1 common shareholders' equity to risk-based assets is calculated by dividing (a) Tier 1 capital less non-common components including qualifying perpetual preferred stock 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.

Table of Contents

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

(in thousands)	December 31, 2012	December 31, 2011
Common shareholders' equity	$ 2,335,398	$ 2,144,849
Less: Goodwill and other intangible assets	(690,761)	(522,753)
Tangible common shareholders' equity (A)	$ 1,644,637	$ 1,622,096
Total assets	$ 28,618,492	$ 23,666,291
Less: Goodwill and other intangible assets	(690,761)	(522,753)
Tangible assets (B)	$ 27,927,731	$ 23,143,538
Tangible common shareholders' equity to tangible assets (A)/(B)	5.89%	7.01%
Tier 1 capital	1,753,312	1,570,101
Less: Preferred stock	(169,920)	
Less: Trust preferred securities	(5,155)	(5,155)
Tier 1 common shareholders' equity (C)	$ 1,578,237	$ 1,564,946
Risk-weighted assets (D)	$ 18,627,165	$ 15,305,328
Tier 1 common shareholders' equity to risk-based assets (C)/(D)	8.47%	10.22%

Table of Contents

QUARTERLY RESULTS

The following table summarizes quarterly operating results for 2012 and 2011:

2012 Quarterly Operating Results (Unaudited)

(in thousands)	Quarter ended March 31	June 30	September 30	December 31	Total
Interest income	$ 213,592	$ 229,889	$ 224,768	$ 218,302	$ 886,551
Interest expense	12,879	13,410	14,846	14,580	55,715
Net interest income	200,713	216,479	209,922	203,722	830,836
Provision for credit losses on loans and leases, excluding covered loans		1,000	2,000	7,000	10,000
Provision for losses on covered loans	7,466	13,293	18,089	6,498	45,346
Net interest income after provision for credit losses	193,247	202,186	189,833	190,224	775,490
Noninterest income	75,251	75,225	106,440	99,865	356,781
Impairment loss on securities		(178)	(39)	(74)	(291)
Gain (loss) on sale of securities	449	(279)	856	87	1,113
Noninterest expense	200,720	194,516	207,886	222,016	825,138
Income before taxes	68,227	82,438	89,204	68,086	307,955
Income taxes	21,719	27,271	29,052	20,780	98,822
Net income	$ 46,508	$ 55,167	$ 60,152	$ 47,306	$ 209,133
Less: Net income attributable to noncontrolling interest	243	409	372	60	1,084
Net income attributable to City National Corporation	$ 46,265	$ 54,758	$ 59,780	$ 47,246	$ 208,049
Net income per common share, basic	$ 0.86	$ 1.02	$ 1.10	$ 0.87	$ 3.85
Net income per common share, diluted	$ 0.86	$ 1.01	$ 1.10	$ 0.87	$ 3.83

2011 Quarterly Operating Results (Unaudited)

(in thousands)	Quarter ended March 31	June 30	September 30	December 31	Total
Interest income	$ 200,810	$ 210,136	$ 216,892	$ 215,252	$ 843,090
Interest expense	19,520	19,309	17,576	13,695	70,100
Net interest income	181,290	190,827	199,316	201,557	772,990
Provision for credit losses on loans and leases, excluding covered loans			7,500	5,000	12,500
Provision for losses on covered loans	19,116	1,716	5,147	17,667	43,646
Net interest income after provision for credit losses	162,174	189,111	186,669	178,890	716,844
Noninterest income	93,927	90,542	66,308	86,675	337,452
Impairment loss on securities	(164)	(294)	(193)		(651)
Gain (loss) on sale of securities	130	1,689	3,520	(273)	5,066
Noninterest expense	197,397	211,832	197,637	198,229	805,095
Income before taxes	58,670	69,216	58,667	67,063	253,616
Income taxes	17,886	20,650	16,267	22,758	77,561
Net income	$ 40,784	$ 48,566	$ 42,400	$ 44,305	$ 176,055
Less: Net income attributable to noncontrolling interest	1,092	1,095	1,002	445	3,634

Net income attributable to City National Corporation	$ 39,692	$ 47,471	$ 41,398	$ 43,860	$ 172,421
Net income per common share, basic	$ 0.75	$ 0.89	$ 0.78	$ 0.82	$ 3.24
Net income per common share, diluted	$ 0.74	$ 0.88	$ 0.77	$ 0.82	$ 3.21

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, 2012, 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, 2012, 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, 2012, 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.

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, 2012, 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, 2012, 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, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated February 28, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California
February 28, 2013

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, 2012 and 2011 and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2012. 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, 2012 and 2011 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, 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, 2012, 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, 2013 expressed an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
February 28, 2013

CITY NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	December 31, 2012	December 31, 2011
Assets		
Cash and due from banks	$ 151,969	$ 168,376
Due from banks interest-bearing	246,336	76,438
Federal funds sold	17,100	
Securities available-for-sale cost $9,057,238 and $7,445,999 at December 31, 2012 and December 31, 2011, respectively:		
Securities pledged as collateral	48,697	37,861
Held in portfolio	9,157,292	7,534,040
Securities held-to-maturity fair value $1,446,599 and $473,903 at December 31, 2012 and December 31, 2011, respectively	1,398,403	467,680
Trading securities	115,059	61,975
Loans and leases, excluding covered loans	14,818,295	12,309,385
Less: Allowance for loan and lease losses	277,888	262,557
Loans and leases, excluding covered loans, net	14,540,407	12,046,828
Covered loans, net of allowance for loan losses	986,223	1,417,289
Net loans and leases	15,526,630	13,464,117
Premises and equipment, net	149,433	143,641
Deferred tax asset	124,461	155,529
Goodwill	642,622	486,383
Customer-relationship intangibles, net	48,139	36,370
Affordable housing investments	154,011	121,039
Customers' acceptance liability	7,859	1,702
Other real estate owned ($58,276 and $98,550 covered by FDIC loss share at December 31, 2012 and December 31, 2011, respectively)	79,303	129,340
FDIC indemnification asset	150,018	204,259
Other assets	601,160	577,541
Total assets	$ 28,618,492	$ 23,666,291
Liabilities		
Demand deposits	$ 14,264,797	$ 11,146,627
Interest checking deposits	2,459,972	2,034,815
Money market deposits	5,610,844	5,954,886
Savings deposits	398,824	339,858
Time deposits under $100,000	203,422	251,782
Time deposits $100,000 and over	564,496	659,614
Total deposits	23,502,355	20,387,582
Short-term borrowings	1,423,798	50,000
Long-term debt	706,051	697,778
Reserve for off-balance sheet credit commitments	24,837	23,097
Acceptances outstanding	7,859	1,702
Other liabilities	407,162	316,640
Total liabilities	26,072,062	21,476,799
Redeemable noncontrolling interest	41,112	44,643
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, par value $1.00 per share; 5,000,000 shares authorized; 175,000 shares issued at December 31, 2012	169,920	
Common stock, par value $1.00 per share; 75,000,000 shares authorized; 53,885,886 shares issued at December 31, 2012 and December 31, 2011	53,886	53,886
Additional paid-in capital	490,339	489,200
Accumulated other comprehensive income	86,582	72,372
Retained earnings	1,738,957	1,611,969
Treasury shares, at cost 669,454 and 1,386,705 shares at December 31, 2012 and December 31, 2011, respectively	(34,366)	(82,578)
Total common shareholders' equity	2,335,398	2,144,849

Total shareholders' equity	2,505,318	2,144,849
Total liabilities and shareholders' equity	$ 28,618,492	$ 23,666,291

See accompanying Notes to the Consolidated Financial Statements.

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	For the year ended December 31,		
(in thousands, except per share amounts)	**2012**	**2011**	**2010**
Interest Income			
Loans and leases	$ 708,851	$ 681,900	$ 690,912
Securities	176,661	159,264	136,760
Due from banks interest-bearing	721	1,504	1,890
Federal funds sold and securities purchased under resale agreements	318	422	634
Total interest income	886,551	843,090	830,196
Interest Expense			
Deposits	14,042	33,685	49,030
Federal funds purchased and securities sold under repurchase agreements	46	2	5,292
Subordinated debt	20,619	17,778	18,628
Other long-term debt	21,008	18,634	26,912
Other short-term borrowings		1	9
Total interest expense	55,715	70,100	99,871
Net interest income	830,836	772,990	730,325
Provision for credit losses on loans and leases, excluding covered loans	10,000	12,500	103,000
Provision for losses on covered loans	45,346	43,646	76,218
Net interest income after provision	775,490	716,844	551,107
Noninterest Income			
Trust and investment fees	155,224	140,732	134,727
Brokerage and mutual fund fees	27,804	20,440	23,742
Cash management and deposit transaction charges	45,649	44,305	47,593
International services	39,963	36,466	31,297
FDIC loss sharing (expense) income, net	(6,017)	(8,637)	63,335
Gain on disposal of assets	11,293	20,300	2,837
Gain on sale of securities	1,113	5,066	393
Gain on acquisition		8,164	27,339
Other	82,865	75,682	32,143
Impairment loss on securities:			
Total other-than-temporary impairment loss on securities	(1,279)	(4,849)	(9,513)
Less: Portion of loss recognized in other comprehensive income	988	4,198	7,482
Net impairment loss recognized in earnings	(291)	(651)	(2,031)
Total noninterest income	357,603	341,867	361,375
Noninterest Expense			
Salaries and employee benefits	479,302	448,702	409,823
Net occupancy of premises	61,534	54,340	55,567
Legal and professional fees	52,840	49,955	47,641
Information services	34,244	32,097	30,824
Depreciation and amortization	32,485	27,596	25,845
Amortization of intangibles	7,268	7,727	9,036
Marketing and advertising	30,665	28,920	23,112
Office services and equipment	17,848	17,968	16,381
Other real estate owned	38,253	65,044	63,111
FDIC assessments	18,117	29,480	29,055
Other operating	52,582	43,266	40,935
Total noninterest expense	825,138	805,095	751,330
Income before income taxes	307,955	253,616	161,152
Income taxes	98,822	77,561	26,055

Net income	$ 209,133	$ 176,055	$ 135,097
Less: Net income attributable to noncontrolling interest	1,084	3,634	3,920
Net income attributable to City National Corporation	$ 208,049	$ 172,421	$ 131,177
Less: Dividends and accretion on preferred stock			5,702
Net income available to common shareholders	$ 208,049	$ 172,421	$ 125,475
Net income per common share, basic	$ 3.85	$ 3.24	$ 2.38
Net income per common share, diluted	$ 3.83	$ 3.21	$ 2.36
Weighted average common shares outstanding, basic	53,211	52,439	51,992
Weighted average common shares outstanding, diluted	53,475	52,849	52,455
Dividends per common share	$ 1.50	$ 0.80	$ 0.40

See accompanying Notes to the Consolidated Financial Statements.

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	For the year ended December 31, 2012	2011	2010
Net income	$ 209,133	$ 176,055	$ 135,097
Other comprehensive income, net of tax:			
Securities available for sale:			
Net unrealized gains arising during the period	13,973	42,173	42,934
Reclassification adjustment for net gains included in net income	(107)	(2,882)	5,170
Non-credit related impairment loss	(575)	(2,442)	(4,352)
Net change on cash flow hedges (1)	(166)	(962)	(3,187)
Pension liability adjustment	1,085	(368)	(663)
Total other comprehensive income	14,210	35,519	39,902
Comprehensive income	$ 223,343	$ 211,574	$ 174,999
Less: Comprehensive income attributable to noncontrolling interest	1,084	3,634	3,920
Comprehensive income attributable to City National Corporation	$ 222,259	$ 207,940	$ 171,079

(1) See Note 16 for additional information on other comprehensive income related to cash flow hedges.

See accompanying Notes to the Consolidated Financial Statements.

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
(in thousands)	**2012**	**2011**	**2010**
Cash Flows From Operating Activities			
Net income	$ 209,133	$ 176,055	$ 135,097
Adjustments to net income:			
Provision for credit losses on loans and leases, excluding covered loans	10,000	12,500	103,000
Provision for losses on covered loans	45,346	43,646	76,218
Amortization of intangibles	7,268	7,727	9,036
Depreciation and amortization	32,485	27,596	25,845
Share-based employee compensation expense	18,563	19,454	16,734
Deferred income tax expense (benefit)	12,309	(34,938)	30,099
Gain on disposal of assets	(11,293)	(20,300)	(2,837)
Gain on sale of securities	(1,113)	(5,066)	(393)
Gain on acquisition		(8,164)	(27,339)
Impairment loss on securities	291	651	2,031
Other, net	(28,632)	(11,459)	(40,379)
Net change in:			
Trading securities	(52,134)	193,026	(101,095)
Other assets and other liabilities, net	20,130	207,293	353,992
Net cash provided by operating activities	262,353	608,021	580,009
Cash Flows From Investing Activities			
Purchase of securities available-for-sale	(5,362,435)	(5,288,118)	(4,351,981)
Sales of securities available-for-sale	52,085	101,089	574,532
Maturities and paydowns of securities available-for-sale	3,659,370	3,379,320	2,420,577
Purchase of securities held-to-maturity	(958,871)	(467,817)	
Maturities and paydowns of securities held-to-maturity	25,863	91	
Loan originations, net of principal collections	(1,746,581)	(547,887)	831,857
Net payments for premises and equipment	(33,571)	(42,711)	(29,906)
Net cash (paid) acquired in acquisitions	(123,746)	28,066	88,795
Other investing activities, net	97,765	122,649	82,196
Net cash used in investing activities	(4,390,121)	(2,715,318)	(383,930)
Cash Flows From Financing Activities			
Net increase in deposits	3,114,773	2,083,925	255,915
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	1,164,200	50,000	(626,779)
Net decrease in short-term borrowings, net of transfers from long-term debt	(5,992)	(151,535)	(30,609)
Net (decrease) increase in long-term debt	(86,409)	(757)	47,397
Proceeds from exercise of stock options	22,428	5,089	23,764
Tax benefit from exercise of stock options	3,089	2,007	3,958
Issuance (redemption) of preferred stock	169,920		(200,000)
Repurchase of common stock warrants			(18,500)
Cash dividends paid	(80,380)	(42,489)	(24,012)
Other financing activities, net	(3,270)	(28,818)	(5,450)
Net cash provided by (used in) financing activities	4,298,359	1,917,422	(574,316)
Net increase (decrease) in cash and cash equivalents	170,591	(189,875)	(378,237)
Cash and cash equivalents at beginning of year	244,814	434,689	812,926
Cash and cash equivalents at end of period	$ 415,405	$ 244,814	$ 434,689
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period for:			
Interest	$ 51,966	$ 73,460	$ 96,213
Income taxes	108,833	114,990	7,195
Non-cash investing activities:			
Transfer of loans to other real estate owned	$ 64,554	$ 113,563	$ 168,958

Transfer of SERP liability to equity	8,348		
Assets acquired (liabilities assumed) in acquisitions:			
Securities available-for-sale	$	$ 10,441	$ 17,183
Loans and leases	318,301	1,060	
Covered loans		55,313	330,566
Covered other real estate owned		7,463	15,161
Deposits		(126,795)	(541,499)
Other borrowings	(320,856)	(3,165)	(30,539)

See accompanying Notes to the Consolidated Financial Statements.

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	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, 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					39,902				39,902
Dividends and distributions to noncontrolling interest								(2,141)	(2,141)
Preferred stock accretion		3,952				(3,952)			
Redemption of preferred stock		(200,000)							(200,000)
Repurchase of common stock warrants				(18,500)					(18,500)
Issuance of shares under share-based compensation plans				(28,254)			50,588		22,334
Share-based employee compensation expense				16,635					16,635
Tax benefit from share-based compensation plans				3,179					3,179
Preferred stock dividends						(1,750)			(1,750)
Common stock dividends						(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
Net income (1)						172,421		1,678	174,099
Other comprehensive income, net of tax					35,519				35,519
Dividends and distributions to noncontrolling interest								(1,678)	(1,678)
Issuance of shares under share-based compensation plans				(15,406)			18,452		3,046
Share-based employee compensation expense				19,242					19,242
Tax benefit from share-based compensation plans				1,264					1,264
Common stock dividends						(42,489)			(42,489)
Net change in deferred compensation plans				637			35		672
Change in redeemable noncontrolling interest				(4,544)					(4,544)
Other (2)				139				(25,139)	(25,000)
Balance, December 31, 2011	53,885,886		53,886	489,200	72,372	1,611,969	(82,578)		2,144,849
Net income (1)						208,049			208,049
Other comprehensive income, net of tax					14,210				14,210
Issuance of preferred stock		169,920							169,920
Issuance of shares under share-based compensation plans				(27,987)			48,210		20,223
Share-based employee compensation expense				17,350					17,350
Tax benefit from share-based compensation plans				2,118					2,118
Common stock dividends						(81,061)			(81,061)
Net change in deferred compensation plans				957			2		959
Change in redeemable noncontrolling interest				353					353
Other (3)				8,348					8,348
Balance, December 31, 2012	53,885,886	$ 169,920	$ 53,886	$ 490,339	$ 86,582	$ 1,738,957	$ (34,366)	$	$ 2,505,318

(1) Net income excludes net income attributable to redeemable noncontrolling interest of $1,084, $1,956 and $1,779 for 2012, 2011 and 2010, 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.

(2) See Note 21 for additional information on the change in noncontrolling interest.

(3) Conversion of pension liability to equity due to SERP amendment. See Note 18 for additional information.

See accompanying Notes to the Consolidated Financial Statements.

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 78 offices in Southern California, the San Francisco Bay area, Nevada, New York City, Nashville, Tennessee and Atlanta, Georgia. As of December 31, 2012, the Corporation had five consolidated investment advisory affiliates and one unconsolidated subsidiary, Business Bancorp Capital Trust I. Because the Bank comprises substantially all of the business of the Corporation, references to the "Company" mean the Corporation and the Bank together. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

Consolidation

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

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

Use of Estimates

The Company's accounting and reporting policies conform to generally accepted accounting principles ("GAAP") and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and income and expenses during the reporting period. Circumstances and events that differ significantly from those underlying the Company's estimates and assumptions could cause actual financial results to differ from those estimates. The material estimates included in the financial statements relate to the allowance for

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

loan and lease losses, the reserve for off-balance sheet credit commitments, other real estate owned ("OREO"), valuation of share-based compensation awards, income taxes, goodwill and intangible asset impairment, securities impairment, private equity and alternative investment impairment, valuation of assets and liabilities acquired in business combinations, including contingent consideration liabilities, subsequent valuations of acquired impaired loans, Federal Deposit Insurance Corporation ("FDIC") indemnification assets, valuation of noncontrolling interest and the valuation of financial assets and liabilities reported at fair value.

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

Basis of Presentation

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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Securities Available-for-sale and Trading Securities Fair values for U.S. Treasury securities, marketable equity securities and trading securities, with the exception of agency and municipal 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 municipal auction rate securities and certain collateralized debt obligation instruments for which the market has

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

become inactive. Fair values for these securities were determined using internal models based on assumptions that are not observable in the market. Securities held-to-maturity are not measured at fair value on a recurring basis.

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. 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.

Contingent Liabilities Contingent liabilities include contingent consideration obligations from business combinations that are settled in cash and FDIC clawback liabilities associated with FDIC-assisted acquisitions. Contingent consideration represents additional purchase price consideration to be transferred to the former shareholders of an acquired entity if certain future events or conditions are met. These contingencies are generally based on earnings or revenue growth targets contained in the acquisition agreement. FDIC clawback liabilities represent estimated payments by the Company to the FDIC if actual cumulative losses on acquired covered assets are lower than the cumulative losses originally estimated by the FDIC at the time of acquisition. Contingent consideration and FDIC clawback liabilities are recorded at fair value based on the circumstances that exist as of the acquisition

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

date and are remeasured to fair value at each reporting date until the contingency is resolved. The Company's contingent liabilities are valued using the discounted cash flow method based on the terms specified in the acquisition or loss-sharing agreements and the following unobservable inputs, as applicable: (1) risk-adjusted discount rate reflecting the Bank's credit risk, plus a liquidity premium, (2) management's forecast of a range of possible performance outcomes, including revenue growth and margin, (3) management's estimate of the probability of each possible outcome, and (4) prepayment assumptions. Contingent liabilities are classified in Level 3 of the fair value hierarchy.

Redeemable Noncontrolling Interest Redeemable noncontrolling interest is comprised of noncontrolling ownership interests in the Corporation's investment management and wealth advisory affiliates. Redeemable noncontrolling interest is valued based on a combination of factors, including, but not limited to, observable valuation of firms similar to the affiliates, multiples of revenue or profit, unique investment track products or performance, strength in the marketplace, projected discounted cash flow scenarios, strategic value of affiliates to other entities, as well as unique sources of value specific to an individual firm. The methodology used to fair value these interests is consistent with the industry practice of valuing similar types of instruments. Redeemable noncontrolling interest 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.

Securities

Securities are classified based on management's intention on the date of purchase. Securities classified as available-for-sale or trading are presented at fair value and securities classified as held-to-maturity are presented at amortized cost. 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 are amortized or accreted into income using the interest method over the expected lives of the individual securities. The Company performs a quarterly assessment of available-for-sale and held-to-maturity debt securities 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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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 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. 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.

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. Effective July 1, 2012, the Company increased the outstanding loan amount under which nonperforming loans are individually evaluated for impairment from $500,000 or greater to $1 million or greater. Nonperforming loans greater than $1 million 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. For borrowers with multiple loans totaling $1 million or more, this threshold is applied at the total relationship level. Loans under $1 million will be measured

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

for impairment using historical loss factors. Loans under $1 million that were previously reported as impaired at June 30, 2012 will continue to be reported as impaired until the collection of principal and interest is no longer in doubt, or the loans are paid or charged-off.

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.

Restructured Loans A loan is identified as troubled debt restructured ("TDR") when a borrower is experiencing financial difficulties and as a result of these difficulties the Company grants a concession to the borrower that it would not otherwise consider. The Company has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due, including interest accrued at the original contract rate. These concessions may include interest rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. A TDR loan is reported as impaired at the time of restructuring. A loan restructuring that involves a below market interest rate will continue to be reported as a TDR until its maturity. A TDR loan may not be reported as a TDR in years subsequent to the restructuring if certain conditions are met: (1) the restructuring agreement specifies an interest rate equal to or greater than that of a new loan with comparable risk at the time the loan is modified, (2) the loan is not impaired based on the terms of the restructuring agreement, and (3) the loan has a demonstrated period of performance. 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 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 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. In accordance with ASC 310-30, the Company assembles loans into pools based on common risk characteristics. The Company believes that the primary drivers of risk in its acquired loan portfolio are loan program and purpose, and has assembled its loan pools based on these 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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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 Covered loans consist of acquired loans that are covered under loss-sharing agreements with the FDIC. Covered loans are reported separately in the loan section of the consolidated balance sheets.

Unfunded Loan Commitments These commitments generally represent credit facilities provided to clients of the Bank, and are not actively traded financial instruments. Unfunded loan 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 process. As conditions change, the Company's level of provisioning and the allowance for loan and lease losses and reserve for off-balance sheet credit commitments may change.

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

For commercial, non-homogenous loans that are not impaired, the Bank derives loss factors via a process that begins with estimates of probable losses inherent in the portfolio based upon various statistical analyses. The factors considered in the analysis include loan type, migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, as well as analyses that reflect current trends and conditions. Each portfolio of smaller balance homogeneous loans, including residential first mortgages, installment, revolving credit and most other consumer loans, is collectively evaluated for loss potential. The quantitative portion of the allowance for loan and lease

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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, and regulatory requirements and other subjective factors such as changes in underwriting standards. It also considers overall portfolio indicators, including current and historical credit losses; delinquent, nonperforming and criticized loans; portfolio concentrations; trends in volumes and terms of loans; and economic trends in the broad market and in specific industries.

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

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

Reserve for Off-Balance Sheet Credit Commitments Off-balance sheet credit commitments include commitments to extend credit and letters of credit. 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 or to the allowance for loan and lease losses.

Allowance for 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.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Covered OREO consists of acquired OREO that is covered under loss-sharing agreements with the FDIC. These assets were recorded at their fair value at 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 five years. Capitalized software is included in Premises and equipment, net in the consolidated balance sheets.

Goodwill and Other Intangible Assets

Under the acquisition method of accounting, the acquiring entity in a business combination recognizes 100 percent of the assets acquired and liabilities assumed, including contingent consideration, 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 are 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, 2012, the weighted-average amortization period for the core deposit intangibles and client advisory contract intangibles is 4.9 years and 15 years, respectively.

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. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. Goodwill is assessed 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. The first step of the impairment evaluation process involves an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The qualitative factors considered include, but are not limited to, industry

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

and market conditions and trends, the Company's financial performance and any Company-specific events relevant to the assessment. If the assessment of qualitative factors indicates that it is not more likely than not that impairment exists, no further testing is performed. If there is an indication that impairment exists, a quantitative test is performed to determine whether the fair value of each reporting unit, including goodwill, is less than the carrying amount of the reporting unit. If so, 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 based either on deposit premiums paid in recent deposit sale transactions, if relevant market data is available, or is based on discounted estimated future cash flows associated with the acquired deposits. The fair value of client advisory and other client service 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 anticipated cash flows for 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.

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

Noncontrolling interest is the portion of equity in a subsidiary not attributable to a parent, and is reported as a separate component of equity in the consolidated balance sheets, with the exception of noncontrolling ownership interests that are redeemable at the option of the holder or outside the control of the issuer. These redeemable noncontrolling interests are not considered to be permanent equity and are reported in the mezzanine section of the consolidated balance sheets at fair value.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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, 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 fees on 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 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 a stock option award is estimated using a Black-Scholes option valuation model. Restricted stock and restricted stock unit awards are valued at the closing price of the Company's stock on the date of the grant. Cash-settled restricted stock units are initially valued at the closing price of the Company's stock on the date of the grant and subsequently remeasured to the closing price of the Company's stock at each reporting date until settlement.

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 using enacted tax laws and rates and tax carryforwards. 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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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 stock and restricted stock units under a share-based compensation plan that qualify as participating securities. These shares 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, vested restricted stock awards and contingently issuable shares. Diluted EPS reflects the assumed conversion of all potential dilutive securities.

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 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*.

On the date the derivative contract is entered into, the Company designates the derivative as a fair value hedge or cash flow hedge. For a fair value hedge, the change in the fair value of the derivative instrument is recognized in current earnings, on the same line in the consolidated statements of income as the changes in fair value of the related hedged item. For a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in Accumulated other comprehensive income (loss) ("AOCI"). Any ineffective portion of the change in fair value of a cash flow hedge is recognized immediately in Other noninterest income in the consolidated statements of income. Amounts within AOCI are reclassified into earnings on the same line in the consolidated statements of income as the hedged item, i.e., included in interest income on loans and leases. 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 documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

undertaking the hedge transaction at the time the derivative contract is executed. 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.

The Company discontinues hedge accounting prospectively when it is determined that a hedge is no longer highly effective. When hedge accounting is discontinued on a fair value hedge that no longer qualifies as an effective hedge, the derivative continues to be reported at fair value on the consolidated balance sheets, but the carrying amount of the hedged item is no longer adjusted for future changes in fair value. The adjustment to the carrying amount of the hedged item that existed at the date hedge accounting is discontinued is amortized over the remaining life of the hedged item into earnings. When it is determined that a cash flow hedge no longer qualifies as an effective hedge, future changes in the fair value of the derivative are recorded in earnings rather than in AOCI, and the amount reported in AOCI at the date hedge accounting was discontinued is 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, 2012, the following accounting pronouncements applicable to the Company were issued or became effective:

In April 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements* ("ASU 2011-03"). ASC Topic 860, *Transfers and Servicing*, provides the criteria for determining whether a transfer of financial assets under a repurchase agreement is accounted for as a secured borrowing or as a sale. In a typical repurchase transaction, an entity transfers financial assets to a counterparty in exchange for cash with an agreement for the counterparty to return the same or equivalent financial assets for a fixed price in the future. Under the guidance, an entity that maintains effective control over transferred assets must

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

account for the transfer as a secured borrowing. ASU 2011-03 eliminates the requirement for entities to consider whether a transferor has the ability to repurchase the financial assets in a repurchase agreement for purposes of determining whether the transferor has maintained effective control. The ASU does not change the other criteria applicable to the assessment of effective control. Adoption of ASU 2011-03 on January 1, 2012 did not have a significant impact on the Company's consolidated financial statements.

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

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

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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

elected to report components of comprehensive income in two separate but consecutive statements. The new guidance was applied retrospectively for all periods presented.

In February 2013, the FASB issued ASU 2013-02, *Other Comprehensive Income (Topic 220), Reporting of Amounts Reclassified out of Other Comprehensive Income* ("ASU 2013-02"). The provisions in the ASU supersede and replace the presentation requirements for reclassifications out of AOCI in ASUs 2011-05 and 2011-12. ASU 2013-02 requires entities to disclose additional information about reclassification adjustments, including (1) changes in AOCI balances by component and (2) significant items reclassified out of AOCI. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company will adopt ASU 2013-02 for its first quarter 2013 reporting. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, *Intangibles Goodwill and Other (Topic 350), Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02"), which amends the guidance in ASC 350-30 on testing indefinite-lived intangible assets, other than goodwill, for impairment. Under ASU 2012-02, an entity testing an indefinite-lived intangible asset for impairment has the option of performing a qualitative assessment before calculating the fair value of the asset. If an entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is not more likely than not (i.e., a likelihood of more than 50 percent) impaired, the entity would not need to calculate the fair value of the asset. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In October 2012, the FASB issued ASU 2012-06, *Business Combinations (Topic 805), Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution* ("ASU 2012-06"). ASU 2012-06 clarifies existing guidance on the subsequent measurement of an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. Existing guidance specifies that an acquirer must record an indemnification asset at the same time as it recognizes the indemnified item in a business combination. The indemnification asset is initially measured on the same basis as the indemnified item, with a valuation allowance for amounts deemed uncollectible, and is subsequently also measured on the same basis as the indemnified item, subject to any contractual limitations on the asset's amount.

Under ASU 2012-06, when there is a subsequent change in the cash flows expected to be collected on the indemnified asset, the reporting entity should subsequently measure the indemnification asset on the same basis as the underlying loans by taking into account the contractual limitation of the loss-sharing agreement with the FDIC. For amortization of changes in value, the reporting entity should use the term of the loss-sharing agreement if it is shorter than the term of the acquired loans. ASU 2012-06 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The guidance should be applied prospectively to any new indemnification assets acquired subsequent to the date of adoption, and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of a financial institution. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* ("ASU 2013-01"*)*. ASU 2013-01 clarifies that ordinary trade receivables and other receivables are not in the scope of ASU 2011-11, *Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities ("2011-11")*. Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the ASC or subject to a master netting arrangement or similar agreement. The amendments in ASU 2013-01 are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

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 $145.8 million and $115.5 million during the year ended December 31, 2012 and 2011, respectively.

Note 3. Business Combinations

Rochdale Investment Management

On July 2, 2012, the Company acquired Rochdale Investment Management, LLC and associated entities (collectively, "Rochdale"), a New York City-based investment firm with approximately $4.89 billion of assets under management at the date of acquisition. Rochdale manages assets for affluent and high-net-worth clients and their financial advisors across the nation, and operates as a wholly owned subsidiary of the Bank. The investment firm was acquired with both cash and contingent consideration.

The Company recognized goodwill of $86.5 million and a client contract intangible of $19.0 million related to the acquisition. The goodwill recognized is attributable to the expected synergies between Rochdale and the Company's existing wealth management business. It reflects the value associated with the addition of Rochdale's business model, delivery platform and experienced portfolio management team.

The Company recognized a contingent consideration liability at its fair value of $46.7 million. The contingent consideration arrangements require the Company to pay additional cash consideration to Rochdale's former shareholders at certain points in time over the next six years if certain criteria, such as revenue growth and pre-tax margin, are met. The fair value of the contingent consideration was estimated using a probability-weighted discounted cash flow model. Although the acquisition agreement does not set a limit on the total payment, the Company estimates that the total consideration payment could be in the range of $32 million to $74 million, but will ultimately be determined based on actual future results.

The Company recognized acquisition-related expense of $2.0 million during the year ended December 31, 2012. The majority of this expense is included in Legal and professional fees in the consolidated statements of income.

The operating results of Rochdale from its acquisition date through December 31, 2012 are included in the consolidated statement of income for 2012 and are not material to total consolidated operating results for the year ended December 31, 2012. Further, the historical results of the acquired

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Business Combinations (Continued)

entity are not material to the Company's results, and consequently, no pro forma information is presented.

First American Equipment Finance

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

Excluding the effects of acquisition accounting adjustments, the Company acquired approximately $343.0 million in assets and assumed $325.0 million in liabilities. The Company acquired lease receivables with a fair value of $318.3 million and assumed borrowings and nonrecourse debt with a fair value of $320.9 million. The Company recognized goodwill of $68.4 million, which is attributable to the expected synergies from combining the equipment leasing operations of the Company and FAEF. Acquisition-related expense of $0.6 million is included in Legal and professional fees in the consolidated statements of income.

The operating results of FAEF from its acquisition date through December 31, 2012 are included in the consolidated statement of income for 2012 and are not material to total consolidated operating results for the year ended December 31, 2012. Further, the historical results of the acquired entity are not material to the Company's results, and consequently, no pro forma information is presented.

Nevada Commerce Bank

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

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

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, 2012 and 2011 by level in the fair value hierarchy:

(in thousands)	Balance as of December 31, 2012	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Measured on a Recurring Basis				
Assets				
Securities available-for-sale:				
U.S. Treasury	$ 20,397	$ 20,397	$	$
Federal agency Debt	2,349,202		2,349,202	
Federal agency MBS	693,032		693,032	
CMOs Federal agency	5,318,253		5,318,253	
CMOs Non-agency	61,513		61,513	
State and municipal	454,474		407,429	47,045
Other debt securities	307,417		289,275	18,142
Equity securities and mutual funds	1,701	1,701		
Trading securities	115,059	113,010	2,049	
Mark-to-market derivatives (1)	67,496	218	67,278	
Total assets at fair value	$ 9,388,544	$ 135,326	$ 9,188,031	$ 65,187
Liabilities				
Mark-to-market derivatives	$ 64,432	$	$ 64,432	$
Contingent consideration liability	47,724			47,724
FDIC clawback liability	9,970			9,970
Other liabilities	368		368	
Total liabilities at fair value (2)	$ 122,494	$	$ 64,800	$ 57,694
Redeemable noncontrolling interest	$ 41,112	$	$	$ 41,122
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Commercial (4)	$ 2,655	$	$	$ 2,655
Commercial real estate mortgages	10,963		3,950	7,013
Residential mortgages	1,811			1,811
Real estate construction	7,918			7,918
Equity lines of credit	780			780
Installment	550		550	
Other real estate owned (5)	44,396		34,624	9,772
Private equity and alternative investments	6,178			6,178
Total assets at fair value	$ 75,251	$	$ 39,124	$ 36,127

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

(2)

Reported in Other liabilities in the consolidated balance sheets.

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

(4) Includes lease financing.

(5) Includes covered OREO.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

		Fair Value Measurements at Reporting Date Using		
(in thousands)	Balance as of December 31, 2011	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Measured on a Recurring Basis				
Assets				
Securities available-for-sale:				
U.S. Treasury	$ 19,182	$ 19,182	$	$
Federal agency Debt	1,973,862		1,973,862	
Federal agency MBS	681,044		681,044	
CMOs Federal agency	4,326,907		4,326,907	
CMOs Non-agency	69,001		69,001	
State and municipal	401,604		401,604	
Other debt securities	99,074		79,491	19,583
Equity securities and mutual funds	1,227	1,227		
Trading securities	61,975	61,922	53	
Mark-to-market derivatives (1)	62,230		62,230	
Total assets at fair value	$ 7,696,106	$ 82,331	$ 7,594,192	$ 19,583
Liabilities				
Mark-to-market derivatives	$ 52,881	$	$ 52,881	$
FDIC clawback liability	8,103			8,103
Other liabilities	263		263	
Total liabilities at fair value (2)	$ 61,247	$ 1,542	$ 53,144	$ 8,103
Redeemable noncontrolling interest	$ 44,643	$	$	$ 44,643
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Commercial (4)	$ 2,484	$	$	$ 2,484
Commercial real estate mortgages	6,830		6,830	
Residential mortgages	5,555		5,084	471
Real estate construction	18,528		9,680	8,848
Equity lines of credit	3,471		2,588	883
Installment	675		675	
Collateral dependent impaired covered loans (3):				
Commercial	422			422
Other real estate owned (5)	66,837		56,898	9,939
Private equity and alternative investments	6,558			6,558
Total assets at fair value	$ 111,360	$	$ 81,755	$ 29,605

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

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

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

(4) Includes lease financing.

(5) Includes covered OREO.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

At December 31, 2012, $9.39 billion, or approximately 33 percent, of the Company's total assets were recorded at fair value on a recurring basis, compared with $7.70 billion, or 33 percent, at December 31, 2011. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than 1 percent of total assets were measured using Level 3 inputs. At December 31, 2012, $122.5 million of the Company's total liabilities were recorded at fair value using Level 1, Level 2 or Level 3 inputs, compared with $61.2 million at December 31, 2011. There were no transfers between Level 1 and Level 2 for assets or liabilities measured on a recurring basis during 2012. At December 31, 2012, $75.3 million, or approximately 0.3 percent, of the Company's total assets, were recorded at fair value on a nonrecurring basis, compared with $111.4 million, or approximately 0.5 percent, at December 31, 2011. These assets were measured using Level 2 and Level 3 inputs.

Recurring Fair Value Measurements

Assets and liabilities for which fair value measurement is based on significant unobservable inputs are classified as Level 3 in the fair value hierarchy. The following table provides a reconciliation of the beginning and ending balances for Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2012 and 2011.

Level 3 Assets and Liabilities Measured on a Recurring Basis

	For the year ended December 31, 2012			For the year ended December 31, 2011	
(in thousands)	Securities Available-for-Sale	Contingent Consideration Liability	FDIC Clawback Liability	Securities Available-for-Sale	FDIC Clawback Liability
Balance, beginning of period	$ 19,583	$	$ (8,103)	$ 20,982	$ (6,911)
Total realized/unrealized gains (losses):					
Included in earnings			(1,867)		(1,192)
Included in other comprehensive income	2,332			651	
Additions		(46,696)			
Settlements	(4,004)			(2,051)	
Transfers into Level 3	47,165				
Other (1)	111	(1,028)		1	
Balance, end of period	$ 65,187	$ (47,724)	$ (9,970)	$ 19,583	$ (8,103)

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

Redeemable noncontrolling interest is classified as Level 3 in the fair value hierarchy and measured on a recurring basis. Refer to Note 1, *Significant Accounting Policies*, for a discussion of the methodology used in valuing redeemable noncontrolling interest and Note 21, *Noncontrolling Interest*, for a rollforward of activity for the years ended December 31, 2012 and 2011.

Level 3 assets measured at fair value on a recurring basis consist of municipal auction rate securities and collateralized debt obligation senior notes that are included in securities

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

available-for-sale. During the year ended December 31, 2012, municipal auction rate securities totaling $47.2 million were transferred from Level 2 to Level 3 of the fair value hierarchy as a result of a change in the method used to value these securities. The valuation methodology was revised due to the prolonged period of inactivity in the market for auction rate securities. At December 31, 2012, these securities were valued using an average yield on California variable rate notes that were comparable in credit rating and maturity to the securities held, plus a liquidity premium. Senior notes totaling $18.1 million at December 31, 2012 were valued using the discounted cash flow method with the following unobservable inputs: (1) risk-adjusted discount rate consistent with similarly-rated securities, (2) prepayment rate of 2 percent, (3) default rate of 0.75 percent of performing collateral, and (4) 15 percent recovery rate with a 2-year lag.

Level 3 liabilities measured at fair value on a recurring basis consist of contingent consideration and an FDIC clawback liability that are included in other liabilities. Refer to Note 3, *Business Combinations*, for further discussion of the methodology used to value the contingent consideration liability. The FDIC clawback liability was valued using the discounted cash flow method based on the terms specified in loss-sharing agreements with the FDIC, the actual FDIC payments collected and the following unobservable inputs: (1) risk-adjusted discount rate reflecting the Bank's credit risk, plus a liquidity premium, (2) prepayment assumptions and (3) credit assumptions.

There were no purchases, sales, or transfers out of Level 3 assets measured on a recurring basis during the year ended December 31, 2012 and 2011. Paydowns of $4.0 million and $2.1 million were received on Level 3 assets measured on a recurring basis for the years ended December 31, 2012 and 2011, respectively.

Nonrecurring Fair Value Measurements

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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

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

Information About Nonrecurring Level 3 Fair Value Measurements

(in thousands)	Fair Value at December 31, 2012	Valuation Method	Unobservable Inputs
Collateral dependent impaired loans	$ 20,177	Market	Adjustments to external or internal appraised values (1) Probability weighting of broker price opinions Management assumptions regarding market trends or other relevant factors
Other real estate owned	$ 9,772	Market	Adjustments to external or internal appraised values (1) Probability weighting of broker price opinions Management assumptions regarding market trends or other relevant factors
Private equity and alternative investments	$ 6,178	Cost Recovery	Management's assumptions regarding recoverability of investment based on fund financial performance, market conditions and other relevant factors

(1) Appraised values may be adjusted to reflect changes in market conditions that have occurred subsequent to the appraisal date, or for revised estimates regarding the timing or cost of the property sale. These adjustments are based on qualitative judgments made by management on a case-by-case basis.

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

For assets measured at fair value on a nonrecurring basis, the following table presents the total net (losses) gains, which include charge-offs, recoveries, specific reserves, OREO valuation write-downs and

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

write-ups, gains and losses on sales of OREO, and impairment write-downs on private equity and alternative investments, recognized in 2012 and 2011:

(in thousands)	For the year ended December 31, 2012	2011
Collateral dependent impaired loans:		
Commercial	$ (368)	$ (394)
Commercial real estate mortgages	(1,143)	5,673
Residential mortgages	(975)	(484)
Real estate construction	(5,137)	(13,001)
Equity lines of credit	(25)	(705)
Installment	(208)	(4,596)
Collaterial dependent impaired covered loans:		
Commercial		(325)
Other real estate owned (1)	(20,695)	(41,531)
Private equity and alternative investments	(3,296)	(1,183)
Total net losses recognized	$ (31,847)	$ (56,546)

(1) Net losses on OREO include $17.7 million and $38.5 million of net losses related to covered OREO for the years ended December 31, 2012 and December 31, 2011, respectively, a significant portion of which is reimbursable by the FDIC.

Fair Value of Financial Instruments

A financial instrument is broadly defined as cash, evidence of an ownership interest in another entity, or a contract that imposes a contractual obligation on one entity and conveys a corresponding right to a second entity to require delivery or exchange of financial assets or liabilities. Refer to Note 1, *Summary of Significant Accounting Policies,* for additional information on fair value measurements.

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.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

The following tables summarize the carrying amounts and estimated fair values of those financial instruments that are reported at amortized cost in the Company's consolidated balance sheets. The tables also provide information on the level in the fair value hierarchy for inputs used in the fair value of those financial instruments. Most financial assets and financial liabilities for which carrying amount equals fair value are considered by the Company to be Level 1 measurements in the fair value hierarchy.

	December 31, 2012				
	Carrying	Total	Fair Value Measurements Using		
(in millions)	Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	$ 152.0	$ 152.0	$ 152.0	$	$
Due from banks interest bearing	246.3	246.3	246.3		
Federal funds sold	17.1	17.1	17.1		
Securities held-to-maturity	1,398.4	1,446.6		1,446.6	
Loans and leases, net of allowance	14,540.4	14,988.6		4.5	14,984.1
Covered loans, net of allowance	986.2	1,055.0			1,055.0
FDIC indemnification asset	150.0	123.9			123.9
Investment in FHLB and FRB stock	90.0	90.0		90.0	
Financial Liabilities:					
Deposits	$ 23,502.4	$ 23,506.9	$	$ 22,734.5	$ 772.4
Federal funds purchased and securities sold under repurchase agreements	1,214.2	1,214.2	1,214.2		
Other short-term borrowings	209.6	210.7		207.6	3.1
Long-term debt	706.1	774.8		698.9	75.9

	December 31, 2011				
	Carrying	Total	Fair Value Measurements Using		
(in millions)	Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	$ 168.4	$ 168.4	$ 168.4	$	$
Due from banks interest bearing	76.4	76.4	76.4		
Securities held-to-maturity	467.7	473.9		473.9	
Loans and leases, net of allowance	12,046.8	12,400.5		24.9	12,375.6
Covered loans, net of allowance	1,417.3	1,472.6			1,472.6
FDIC indemnification asset	204.3	184.3			184.3
Investment in FHLB and FRB stock	107.4	107.4		107.4	
Financial Liabilities:					
Deposits	$ 20,387.6	$ 20,392.3	$	$ 19,476.2	$ 916.1
Federal funds purchased and securities sold under repurchase agreements	50.0	50.0	50.0		
Long-term debt	697.8	718.7		718.7	

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 of these financial instruments:

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 held-to-maturity For securities held-to-maturity, the fair value is determined by quoted market prices, where available, or based on observable market inputs appropriate for the type of security.

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

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

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

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

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.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (Continued)

Federal funds purchased and Securities sold under repurchase agreements The carrying amount is a reasonable estimate of fair value.

Other short-term borrowings The fair value of the current portion of long-term debt classified in short-term borrowings is obtained through third-party pricing sources. The fair value of nonrecourse debt is determined by discounting estimated future cash flows based on estimated current market rates. The carrying amount of the remaining other short-term borrowings is a reasonable estimate of fair value.

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

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

Note 5. Securities

At December 31, 2012, the Company had total securities of $10.72 billion, comprised of securities available-for-sale at fair value of $9.21 billion, securities held-to-maturity at amortized cost of $1.40 billion and trading securities at fair value of $115.1 million. The Company had total securities of $8.10 billion at December 31, 2011, comprised of securities available-for-sale at fair value of $7.57 billion, security held-to-maturity at amortized cost of $467.7 million and trading securities at fair value of $62.0 million.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities (Continued)

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

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
Securities available-for-sale:				
U.S. Treasury	$ 20,393	$ 7	$ (3)	$ 20,397
Federal agency Debt	2,344,374	5,031	(203)	2,349,202
Federal agency MBS	653,428	39,673	(69)	693,032
CMOs Federal agency	5,233,126	91,165	(6,038)	5,318,253
CMOs Non-agency	62,975	662	(2,124)	61,513
State and municipal	437,266	17,447	(239)	454,474
Other debt securities	305,340	7,945	(5,868)	307,417
Total debt securities	9,056,902	161,930	(14,544)	9,204,288
Equity securities and mutual funds	336	1,365		1,701
Total securities available-for-sale	$ 9,057,238	$ 163,295	$ (14,544)	$ 9,205,989
Securities held-to-maturity (1):				
Federal agency Debt	$ 97,183	$ 4,032	$	$ 101,215
Federal agency MBS	303,642	11,490	(182)	314,950
CMOs Federal agency	745,980	28,973	(382)	774,571
State and municipal	251,598	5,122	(857)	255,863
Total securities held-to-maturity	$ 1,398,403	$ 49,617	$ (1,421)	$ 1,446,599

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

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities (Continued)

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2011				
Securities available-for-sale:				
U.S. Treasury	$ 19,163	$ 24	$ (5)	$ 19,182
Federal agency Debt	1,967,928	6,230	(296)	1,973,862
Federal agency MBS	650,091	31,040	(87)	681,044
CMOs Federal agency	4,239,205	89,926	(2,224)	4,326,907
CMOs Non-agency	79,999	322	(11,320)	69,001
State and municipal	383,210	18,767	(373)	401,604
Other debt securities	106,051	1,896	(8,873)	99,074
Total debt securities	7,445,647	148,205	(23,178)	7,570,674
Equity securities and mutual funds	352	875		1,227
Total securities available-for-sale	$ 7,445,999	$ 149,080	$ (23,178)	$ 7,571,901
Securities held-to-maturity (1):				
Federal agency Debt	$ 40,423	$ 780	$	$ 41,203
Federal agency MBS	75,231	1,632		76,863
CMOs Federal agency	292,547	2,580	(195)	294,932
State and municipal	59,479	1,463	(37)	60,905
Total securities held-to-maturity	$ 467,680	$ 6,455	$ (232)	$ 473,903

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

Proceeds from sales of securities available-for-sale were $52.1 million, $101.1 million and $574.5 million in 2012, 2011 and 2010, respectively. There were no sales of securities held-to-maturity in 2012. The following table provides the gross realized gains and losses on the sales and calls of securities:

(in thousands)	For the year ended December 31, 2012	2011	2010
Gross realized gains	$ 2,259	$ 6,747	$ 6,915
Gross realized losses	(1,146)	(1,681)	(6,522)
Net realized gains	$ 1,113	$ 5,066	$ 393

Interest income on securities is comprised of: (i) taxable interest income of $160.0 million, $146.1 million and $123.7 million for the years ended December 31, 2012, 2011 and 2010, respectively, (ii) nontaxable interest income of $16.3 million, $12.4 million and $12.3 million for the years ended December 31, 2012, 2011 and 2010, respectively, and (iii) dividend income of $0.3 million, $0.8 million and $0.8 million for the years ended December 31, 2012, 2011 and 2010, respectively.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities (Continued)

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at December 31, 2012, 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 of the amortizing nature of the loan collateral and prepayment behavior of borrowers.

(in thousands)	One year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	Total
Securities available-for-sale:					
U.S. Treasury	$	$ 20,397	$	$	$ 20,397
Federal agency Debt	1,809,346	539,856			2,349,202
Federal agency MBS	4	441,236	251,792		693,032
CMOs Federal agency	226,935	4,925,990	165,328		5,318,253
CMOs Non-agency	8,344	33,336	19,833		61,513
State and municipal	90,659	266,203	73,630	23,982	454,474
Other	15,201	289,768	2,448		307,417
Total debt securities available-for-sale	$ 2,150,489	$ 6,516,786	$ 513,031	$ 23,982	$ 9,204,288
Amortized cost	$ 2,144,654	$ 6,410,472	$ 477,855	$ 23,921	$ 9,056,902
Securities held-to-maturity:					
Federal agency Debt	$	$	$	$ 97,183	$ 97,183
Federal agency MBS		2,453	301,189		303,642
CMOs Federal agency		123,436	622,544		745,980
State and municipal		14,757	191,269	45,572	251,598
Total debt securities held-to-maturity at amortized cost	$	$ 140,646	$ 1,115,002	$ 142,755	$ 1,398,403

Securities totaling $1.05 billion were pledged to secure trust funds, public deposits, or for other purposes required or permitted by law at December 31, 2012. Included in this total are $48.7 million of securities pledged as collateral that the secured party has the right by contract or custom to sell or repledge the collateral.

Impairment Assessment

The Company performs a quarterly assessment of the debt and equity securities in its investment portfolio that have an unrealized loss to determine whether the decline in the fair value of these securities below their cost is other-than-temporary. Impairment is considered other-than-temporary when it becomes probable that an investor will be unable to recover the cost of an investment. The Company's impairment assessment takes into consideration factors such as the length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer, including events specific to the issuer or industry; defaults or deferrals of scheduled interest, principal or dividend payments; external credit ratings and recent downgrades; and whether the Company intends to sell the security and whether it is more likely than not it will be required to sell the security prior to recovery of its amortized cost basis. If a decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities (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

The Company recorded impairment losses in earnings on securities available-for-sale of $0.3 million, $0.7 million and $2.0 million for 2012, 2011 and 2010, respectively. The Company recognized $1.0 million, $4.2 million and $7.5 million of non-credit-related other-than-temporary impairment in AOCI on securities available-for-sale at December 31, 2012, 2011 and 2010, respectively. No impairment losses were recognized in earnings or AOCI for securities held-to-maturity in 2012.

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

(in thousands)	For the year ended December 31,		
Impairment Losses on Other-Than-Temporarily Impaired Securities	**2012**	**2011**	**2010**
Non-agency CMOs	$ 291	$ 651	$ 1,738
Perpetual preferred stock			293
Total	$ 291	$ 651	$ 2,031

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities (Continued)

The following table summarizes the changes in cumulative credit-related other-than-temporary impairment recognized in earnings for debt securities for the years ended December 31, 2012 and 2011. Credit-related other-than-temporary impairment that was recognized in earnings is reflected as an "Initial credit-related impairment" if the period reported is the first time the security had 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 credit impairment. Cumulative impairment is reduced for securities with previously recognized credit-related impairment that were sold or redeemed during the period. Cumulative impairment is further adjusted for other changes in expected cash flows.

(in thousands)	For the year ended December 31, 2012	2011
Balance, beginning of period	$ 17,531	$ 17,923
Subsequent credit-related impairment	291	651
Reduction for securities sold or redeemed	(537)	(455)
Reduction for increase in expected cash flows on securities for which OTTI was previously recognized	(799)	(588)
Balance, end of period	$ 16,486	$ 17,531

Non-agency CMOs

The Company held $45.3 million of variable rate non-agency CMOs at December 31, 2012. The Company determined that $16.2 million of these non-agency CMOs were other-than-temporarily impaired because the present value of expected cash flows was less than cost. These CMOs have a fixed interest rate for an initial period after which they become variable-rate instruments with annual rate resets. For purposes of projecting future cash flows, the current fixed coupon was used through the reset date for each security. The prevailing LIBOR/Treasury forward curve as of the measurement date was used to project all future floating-rate cash flows based on the characteristics of each security. Other factors considered in the projection of future cash flows include the current level of subordination from other CMO classes, anticipated prepayment rates, cumulative defaults and loss given default. The Company recognized credit-related impairment losses in earnings on its investments in certain variable rate non-agency CMOs totaling $0.3 million, $0.7 million and $1.7 million in 2012, 2011 and 2010, respectively. The remaining other-than-temporary impairment for these securities at December 31, 2012 and 2011 was recognized in AOCI. This non-credit portion of other-than-temporary impairment is attributed to external market conditions, primarily the lack of liquidity in these securities, resulting in an increase in interest rate spreads for these securities. The Company also holds $16.2 million in fixed rate non-agency CMOs, none of which have experienced any other-than-temporary impairment.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities (Continued)

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

	Less than 12 months		12 months or greater		Total	
(in thousands)	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
December 31, 2012						
Securities available-for-sale:						
U.S. Treasury	$ 5,096	$ 3	$	$	$ 5,096	$ 3
Federal agency Debt	346,136	203			346,136	203
Federal agency MBS (1)	50,932	69	46		50,978	69
CMOs Federal agency	1,413,367	5,994	13,565	44	1,426,932	6,038
CMOs Non-agency			25,484	2,124	25,484	2,124
State and municipal	85,550	225	810	14	86,360	239
Other debt securities	39,877	49	16,038	5,819	55,915	5,868
Total securities available-for-sale	$ 1,940,958	$ 6,543	$ 55,943	$ 8,001	$ 1,996,901	$ 14,544
Securities held-to-maturity:						
Federal agency MBS	$ 31,514	$ 182	$	$	$ 31,514	$ 182
CMOs Federal agency	60,998	382			60,998	382
State and municipal	64,344	857			64,344	857
Total securities held-to-maturity	$ 156,856	$ 1,421	$	$	$ 156,856	$ 1,421

(1) The estimated gross unrealized loss for federal agency MBS securities in a continuous unrealized loss position of 12 months or greater was an insignificant amount as of December 31, 2012.

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Securities (Continued)

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

At December 31, 2012, the Company had $2.0 billion of securities available-for-sale in an unrealized loss position, consisting of $1.98 billion of temporarily impaired securities and $16.2 million of securities that had non-credit related impairment recognized in AOCI. At December 31, 2012, the Company had $156.9 million of securities held-to-maturity in an unrealized loss position. At December 31, 2012, the Company had 231 debt securities available-for-sale and held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position include 2 U.S. Treasury note, 8 federal agency debt securities, 7 federal agency MBS, 53 federal agency CMOs, 4 non-agency CMOs, 152 state and municipal securities and 5 other debt securities.

The unrealized loss on non-agency CMOs reflects the lack of liquidity in this sector of the market. The Company only holds the most senior tranches of each non-agency issue which provides protection against defaults. Other than the $0.3 million credit loss recognized in 2012 on non-agency CMOs, the Company expects to receive principal and interest payments equivalent to or greater than the current cost basis of its portfolio of debt securities. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment. The mortgages in these asset pools are relatively large and have been made to borrowers with strong credit history and significant equity invested in their homes. They are well diversified geographically. Over the past year, the real estate market has stabilized somewhat, though performance varies substantially by geography and borrower. Though reduced, a significant weakening of economic fundamentals coupled with a return to elevated unemployment rates and substantial deterioration in the value of high-end residential properties could increase the probability of default and related credit losses. These conditions could cause the value of these securities to decline and trigger the recognition of further other-than-temporary impairment charges.

Other debt securities include the Company's investments in highly rated corporate debt and collateralized bond obligations backed by trust preferred securities ("CDOs") issued by a geographically

Note 5. Securities (Continued)

diverse pool of small- and medium-sized financial institutions. The CDOs held in securities available-for-sale at December 31, 2012 are the most senior tranches of each issue. Trading activity for the type of CDO held by the Company has been limited since 2008. Accordingly, the fair values of these securities were determined using an internal pricing model that incorporates assumptions about discount rates in an illiquid market, projected cash flows and collateral performance. The CDOs had a $5.8 million net unrealized loss at December 31, 2012 which the Company attributes to the illiquid credit markets. The CDOs have collateral that well exceeds the outstanding debt. Security valuations reflect the current and prospective performance of the issuers whose debt is contained in these asset pools. The Company expects to receive all contractual principal and interest payments due on its CDOs. Additionally, the Company does not intend to sell the securities, and it is not more likely than not that it will be required to sell the securities before it recovers the cost basis of its investment.

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

Note 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 Bank ("FRB") totaled $90.0 million and $107.4 million at December 31, 2012 and 2011, respectively. Ownership of government agency securities is restricted to member banks, and the securities do not have readily determinable market values. The Company records investments in FHLB and FRB stock at cost in Other assets of the consolidated balance sheets and evaluates these investments for impairment. The Company expects to recover the full amount invested in FHLB and FRB stock and does not consider its investments to be impaired at December 31, 2012.

Private Equity and Alternative Investments

The Company has ownership interests in a limited number of private equity, venture capital, real estate and hedge funds that are not publicly traded and do not have readily determinable fair values. These investments are carried at cost in the Other assets section of the consolidated balance sheets and are net of impairment write-downs, if applicable. The Company's investments in these funds totaled

CITY NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Other Investments (Continued)

$36.1 million at December 31, 2012 and $39.9 million at December 31, 2011. A summary of investments by fund type is provided below:

(in thousands) Fund Type	December 31, 2012	December 31, 2011
Private equity and venture capital	$ 20,693	$ 23,093
Real estate	9,223	10,541
Hedge	2,866	2,883
Other	3,309	3,402
Total	$ 36,091	$ 39,919

Management reviews these investments quarterly for impairment. The impairment assessment includes a review of the most recent financial statements and investment reports for each fund and discussions with fund management. An impairment loss is recognized if it is deemed probable that the Company will not recover the cost of an investment. The impairment loss is recognized in Other noninterest income in the consolidated statements of income. The new cost basis of the investment is not adjusted for subsequent recoveries in value. The Company recognized impairment losses totaling $3.3 million, $1.2 million and $1.4 million on its investments during 2012, 2011 and 2010, respectively.

The table below provides information as of December 31, 2012 on private equity and alternative investments measured at fair value on a nonrecurring basis due to the recognition of impairment:

(in thousands) Fund Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity and venture capital (2)	$ 2,105	$ 134	None (1)	N/A
Real estate (3)	4,073	1,382	None (1)	N/A
Total	$ 6,178	$ 1,516		

(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.

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:

Loans and Leases

(in thousands)	December 31, 2012	December 31, 2011
Commercial	$ 6,211,353	$ 4,846,594
Commercial real estate mortgages	2,829,694	2,110,749
Residential mortgages	3,962,205	3,763,218
Real estate construction	222,780	315,609
Equity lines of credit	711,750	741,081
Installment	142,793	132,647
Lease financing	737,720	399,487
Loans and leases, excluding covered loans	14,818,295	12,309,385
Less: Allowance for loan and lease losses	(277,888)	(262,557)
Loans and leases, excluding covered loans, net	14,540,407	12,046,828
Covered loans	1,031,004	1,481,854
Less: Allowance for loan losses	(44,781)	(64,565)
Covered loans, net	986,223	1,417,289
Total loans and leases	$ 15,849,299	$ 13,791,239
Total loans and leases, net	$ 15,526,630	$ 13,464,117

The loan amounts above include unamortized fees, net of deferred costs, of $5.9 million and $7.5 million as of December 31, 2012 and 2011, 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 $87.9 million and $58.7 million at December 31, 2012 and 2011, respectively. During 2012, new loans and advances totaled $104.3 million and repayments totaled $74.1 million. Interest income recognized on these loans amounted to $2.2 million, $2.6 million and $2.1 million during 2012, 2011 and 2010, respectively. At December 31, 2012, 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.

Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although, the Company's lending activities are predominantly in California, and to a lesser extent, New York and Nevada, the Company has various specialty lending businesses that lend to businesses located throughout the United States of America. Excluding covered loans, at December 31, 2012, California represented 80 percent of total loans outstanding and New York and Nevada

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)

represented 7 percent and 2 percent, respectively. The remaining 11 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, 2012, the five states with the largest concentration were California (38 percent), Texas (12 percent), Nevada (8 percent), Ohio (4 percent) and New York (4 percent). The remaining 34 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 $6.27 billion as collateral for its borrowing facility at the FHLB.

Covered Loans

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements. Covered loans were $1.03 billion at December 31, 2012 and $1.48 billion at December 31, 2011. Covered loans, net of allowance for loan losses, were $986.2 million at December 31, 2012 and $1.42 billion at December 31, 2011.

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

(in thousands)	December 31, 2012	December 31, 2011
Commercial	$ 10,561	$ 30,911
Commercial real estate mortgages	931,758	1,288,352
Residential mortgages	5,652	14,931
Real estate construction	78,554	140,992
Equity lines of credit	3,790	5,167
Installment	689	1,501
Covered loans	1,031,004	1,481,854
Less: Allowance for loan losses	(44,781)	(64,565)
Covered loans, net	$ 986,223	$ 1,417,289

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

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

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 underlying loans, which included the effects of estimated prepayments. Fair value of the acquired loans included estimated credit losses.

The excess of cash flows expected to be collected over the carrying value of the underlying acquired impaired loans is referred to as the accretable yield. This amount is not reported in the consolidated balance sheets, but is accreted into interest income at a level yield over the remaining estimated lives of the underlying pools of loans. Changes in the accretable yield for acquired impaired loans were as follows for the years ended December 31, 2012 and 2011:

	For the year ended December 31,	
(in thousands)	**2012**	**2011**
Balance, beginning of period	$ 436,374	$ 562,826
Additions		10,871
Accretion	(79,839)	(104,056)
Reclassifications from nonaccretable yield	11,664	33,704
Disposals and other	(72,386)	(66,971)
Balance, end of period	$ 295,813	$ 436,374

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

The Company recorded an indemnification asset related to its FDIC-assisted acquisitions, which represents the present value of the expected reimbursement from the FDIC for expected losses on acquired loans, OREO and unfunded commitments. The FDIC indemnification asset from all FDIC-assisted acquisitions was $150.0 million at December 31, 2012 and $204.3 million at December 31, 2011.

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 Loans and Leases, Excluding Covered Loans

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

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, 2012 and 2011. Activity is provided by loan portfolio segment 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, 2012								
Allowance for loan and lease losses:								
Beginning balance	$ 82,965	$ 45,967	$ 14,029	$ 23,347	$ 8,024	$ 1,959	$ 86,266	$ 262,557
Provision for credit losses (2)	10,750	2,357	(1,951)	(8,757)	382	(1,028)	6,507	8,260
Charge-offs	(24,407)	(1,611)	(2,402)	(9,769)	(1,258)	(1,066)		(40,513)
Recoveries	34,848	1,527	823	8,309	95	1,982		47,584
Net (charge-offs) recoveries	10,441	(84)	(1,579)	(1,460)	(1,163)	916		7,071
Ending balance	$ 104,156	$ 48,240	$ 10,499	$ 13,130	$ 7,243	$ 1,847	$ 92,773	$ 277,888
Ending balance of allowance:								
Individually evaluated for impairment	$ 952	$ 1,326	$ 9	$	$ 116	$	$	$ 2,403
Collectively evaluated for impairment	103,204	46,914	10,490	13,130	7,127	1,847	92,773	275,485
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases, excluding covered loans	$ 6,949,073	$ 2,829,694	$ 3,962,205	$ 222,780	$ 711,750	$ 142,793	$	$ 14,818,295
Individually evaluated for impairment	26,277	53,085	8,810	45,510	4,461	449		138,592
Collectively evaluated for impairment	6,922,796	2,776,609	3,953,395	177,270	707,289	142,344		14,679,703

(1) Includes lease financing loans.

(2) Provision for credit losses in the allowance rollforward for 2012 includes total provision expense of $10.0 million, net of total transfers to the reserve for off-balance sheet credit commitments of $1.7 million.

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)	Commercial (1)	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Equity Lines of Credit	Installment	Unallocated	Total
Year ended December 31, 2011								
Allowance for loan and lease losses:								
Beginning balance	$ 82,451	$ 52,516	$ 16,753	$ 40,824	$ 7,229	$ 3,931	$ 53,303	$ 257,007
Provision for credit losses (2)	15,284	(13,491)	(1,641)	(22,507)	2,561	(2,237)	32,963	10,932
Charge-offs	(30,512)	(4,573)	(1,475)	(8,897)	(1,834)	(914)		(48,205)
Recoveries	15,742	11,515	392	13,927	68	1,179		42,823
Net (charge-offs) recoveries	(14,770)	6,942	(1,083)	5,030	(1,766)	265		(5,382)
Ending balance	$ 82,965	$ 45,967	$ 14,029	$ 23,347	$ 8,024	$ 1,959	$ 86,266	$ 262,557
Ending balance of allowance:								
Individually evaluated for impairment	$ 7,135	$ 1,551	$ 108	$ 4,377	$ 91	$	$	$ 13,262
Collectively evaluated for impairment	75,830	44,416	13,921	18,970	7,933	1,959	86,266	249,295
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases, excluding covered loans	$ 5,246,081	$ 2,110,749	$ 3,763,218	$ 315,609	$ 741,081	$ 132,647	$	$ 12,309,385
Individually evaluated for impairment	25,808	30,678	9,146	75,811	6,633	658		148,734
Collectively evaluated for impairment	5,220,273	2,080,071	3,754,072	239,798	734,448	131,989		12,160,651

(1) Includes lease financing loans.

(2) Provision for credit losses in the allowance rollforward for 2011 includes total provision expense of $12.5 million, net of total transfers to the reserve for off-balance sheet credit commitments of $1.6 million.

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

(in thousands)	For the year ended December 31, 2012	2011
Balance, beginning of the year	$ 23,097	$ 21,529
Transfers from allowance for loan and lease losses	1,740	1,568
Balance, end of the year	$ 24,837	$ 23,097

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, 2012 and 2011 is provided in the following tables:

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Year ended December 31, 2012					
With no related allowance recorded:					
Commercial	$ 18,761	$ 24,135	$	$ 23,538	$
Commercial real estate mortgages	42,882	49,110		29,190	189
Residential mortgages:					
Fixed	3,482	3,757		3,134	
Variable	4,865	5,437		4,981	48
Total residential mortgages	8,347	9,194		8,115	48
Real estate construction:					
Construction	19,762	33,267		27,303	692
Land	25,748	41,016		23,361	265
Total real estate construction	45,510	74,283		50,664	957
Equity lines of credit	3,562	4,660		4,288	
Installment:					
Consumer	449	927		531	
Total installment	449	927		531	
Lease financing				6	
Total with no related allowance	$ 119,511	$ 162,309	$	$ 116,332	$ 1,194
With an allowance recorded:					
Commercial	$ 7,516	$ 8,038	$ 952	$ 10,532	$
Commercial real estate mortgages	10,203	10,783	1,326	12,765	
Residential mortgages:					
Fixed	463	507	9	1,568	
Variable				1,503	4
Total residential mortgages	463	507	9	3,071	4
Real estate construction:					
Land				11,760	
Total real estate construction				11,760	
Equity lines of credit	899	965	116	1,112	
Total with an allowance	$ 19,081	$ 20,293	$ 2,403	$ 39,240	$ 4
Total impaired loans by type:					
Commercial	$ 26,277	$ 32,173	$ 952	$ 34,070	$
Commercial real estate mortgages	53,085	59,893	1,326	41,955	189

Residential mortgages	8,810	9,701	9	11,186	52
Real estate construction	45,510	74,283		62,424	957
Equity lines of credit	4,461	5,625	116	5,400	
Installment	449	927		531	
Lease financing				6	
Total impaired loans	$ 138,592	$ 182,602	$ 2,403	$ 155,572	$ 1,198

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 Contractual Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
Year ended December 31, 2011					
With no related allowance recorded:					
Commercial	$ 10,153	$ 11,588	$	$ 6,525	$
Commercial real estate mortgages	19,867	23,983		18,585	269
Residential mortgages:					
Fixed	3,493	4,035		6,592	170
Variable	3,689	4,000		3,796	54
Total residential mortgages	7,182	8,035		10,388	224
Real estate construction:					
Construction	27,435	40,605		47,710	787
Land	28,991	32,335		22,252	
Total real estate construction	56,426	72,940		69,962	787
Equity lines of credit	5,341	6,325		3,951	
Installment:					
Consumer	658	976		287	
Total installment	658	976		287	
Lease financing	28	5,225		699	98
Total with no related allowance	$ 99,655	$ 129,072	$	$ 110,397	$ 1,378
With an allowance recorded:					
Commercial	$ 15,627	$ 21,377	$ 7,135	$ 14,477	$
Commercial real estate mortgages	10,811	11,215	1,551	11,169	
Residential mortgages:					
Fixed	515	535	40	740	
Variable	1,449	1,476	68	1,153	
Total residential mortgages	1,964	2,011	108	1,893	
Real estate construction:					
Construction				3,534	
Land	19,385	29,381	4,377	8,298	
Total real estate construction	19,385	29,381	4,377	11,832	
Equity lines of credit	1,292	1,461	91	1,435	6
Installment:					
Commercial				1,380	
Total installment				1,380	
Lease financing				171	

Total with an allowance	$ 49,079	$ 65,445	$ 13,262	$ 42,357	$ 6
Total impaired loans by type:					
Commercial	$ 25,780	$ 32,965	$ 7,135	$ 21,002	$
Commercial real estate mortgages	30,678	35,198	1,551	29,754	269
Residential mortgages	9,146	10,046	108	12,281	224
Real estate construction	75,811	102,321	4,377	81,794	787
Equity lines of credit	6,633	7,786	91	5,386	6
Installment	658	976		1,667	
Lease financing	28	5,225		870	98
Total impaired loans	$ 148,734	$ 194,517	$ 13,262	$ 152,754	$ 1,384

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

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)

Effective July 1, 2012, the Company increased the outstanding loan amount under which nonperforming loans are individually evaluated for impairment from $500,000 or greater to $1 million or greater. For borrowers with multiple loans totaling $1 million or more, this threshold is applied at the total relationship level. Loans under $1 million will be measured for impairment using historical loss factors. Loans under $1 million that were previously reported as impaired at June 30, 2012 will continue to be reported as impaired until the collection of principal and interest is no longer in doubt, or the loans are paid or charged-off. At December 31, 2012, impaired loans included $9.3 million of loans previously reported as impaired that are less than $1 million.

Impaired loans at December 31, 2012 and 2011 included $48.8 million and $46.6 million, respectively, of restructured loans that are on accrual status. With the exception of restructured loans on accrual status and a limited number of loans on cash basis nonaccrual for which the full collection of principal and interest is expected, interest income is not recognized on impaired loans until the principal balance of these loans is paid off.

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)

Troubled Debt Restructured Loans

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

(in thousands)	Number of Contracts	Pre-Modification Outstanding Principal	Period-End Outstanding Principal	Financial Effects (1)
Year ended December 31, 2012				
Commercial	20	$ 38,371	$ 19,671	$ 10,528
Commercial real estate mortgages	2	15,833	16,287	
Residential mortgages:				
Fixed	4	2,233	1,068	485
Real estate construction:				
Construction	3	14,857	4,633	
Land	1	8,420	7,918	264
Total real estate construction	4	23,277	12,551	264
Equity lines of credit	1	256	146	
Total troubled debt restructured loans	31	$ 79,970	$ 49,723	$ 11,277
Year ended December 31, 2011				
Commercial	12	$ 12,305	$ 12,111	$ 1,490
Commercial real estate mortgages	5	12,908	12,899	
Residential mortgages:				
Variable	1	969	933	
Real estate construction:				
Construction	6	26,814	26,814	
Land	6	29,153	29,042	1,813
Total real estate construction	12	55,967	55,856	1,813
Lease financing	9	765		
Total troubled debt restructured loans	39	$ 82,914	$ 81,799	$ 3,303

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

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 following table provides a summary of TDR loans that subsequently defaulted during the year ended December 31, 2012 that had been modified as a troubled debt restructuring during the 12 months prior to their default:

	Year ended December 31, 2012			Year ended December 31, 2011		
(in thousands)	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve
Commercial	6	$ 689	$ 300	1	$ 45	$ 1
Commercial real estate mortgages	1	13,802				
Real estate construction:						
Land	2	420		2	6,339	
Total loans that subsequently defaulted	9	$ 14,911	$ 300	3	$ 6,384	$ 1

A restructuring constitutes a troubled debt restructuring when a lender, for reasons related to a borrower's financial difficulties, grants a concession to the borrower it would not otherwise consider. Loans with pre-modification outstanding balances totaling $80.0 million and $82.9 million were modified in troubled debt restructurings during the years ended December 31, 2012 and 2011, respectively. The concessions granted in the restructurings completed in 2012 largely consisted of interest rate concessions and modification of payment terms to interest only. The unpaid principal balance of TDR loans was $94.9 million, before specific reserves of $1.7 million, at December 31, 2012, and $89.4 million, before specific reserves of $1.7 million, at December 31, 2011. The net increase in TDR loans from the prior year-end was attributable to $78.8 million of additions that were partially offset by $61.3 million of payments received and $15.5 million of charge-offs. The remaining change in TDR loans was a result of other adjustments. Loans modified in troubled debt restructurings are impaired loans at the time of restructuring and subject to the same measurement criteria as all other impaired loans.

During the year ended December 31, 2012, six commercial loans, two land loans and one commercial real estate loan that had been restructured within the preceding 12 months subsequently defaulted. The defaults were primarily due to missed or late payments. As of December 31, 2012, four of the commercial loans had paid off and one land loan was charged-off. All other TDR loans were performing in accordance with their restructured terms at December 31, 2012. As of December 31, 2012, commitments to lend additional funds on restructured loans totaled $3.7 million.

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 and Nonaccrual Loans and Leases

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

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
December 31, 2012							
Commercial	$ 6,207	$ 4,219	$ 602	$ 9,087	$ 20,115	$ 6,191,238	$ 6,211,353
Commercial real estate mortgages	16,968	3,249		33,198	53,415	2,776,279	2,829,694
Residential mortgages:							
Fixed		1,969	379	4,902	7,250	1,458,224	1,465,474
Variable				4,701	4,701	2,492,030	2,496,731
Total residential mortgages		1,969	379	9,603	11,951	3,950,254	3,962,205
Real estate construction:							
Construction				15,067	15,067	150,548	165,615
Land		859		25,815	26,674	30,491	57,165
Total real estate construction		859		40,882	41,741	181,039	222,780
Equity lines of credit	3,407	480		6,424	10,311	701,439	711,750
Installment:							
Commercial						437	437
Consumer	58	35		473	566	141,790	142,356
Total installment	58	35		473	566	142,227	142,793
Lease financing	2,633	2		120	2,755	734,965	737,720
Total	$ 29,273	$ 10,813	$ 981	$ 99,787	$ 140,854	$ 14,677,441	$ 14,818,295
December 31, 2011							
Commercial	$ 6,817	$ 1,003	$	$ 19,888	$ 27,708	$ 4,818,886	$ 4,846,594
Commercial real estate mortgages	5,838			21,948	27,786	2,082,963	2,110,749
Residential mortgages:							
Fixed	662	525	379	5,572	7,138	1,574,658	1,581,796
Variable		2,983		4,199	7,182	2,174,240	2,181,422
Total residential mortgages	662	3,508	379	9,771	14,320	3,748,898	3,763,218
Real estate construction:							
Construction				15,582	15,582	202,279	217,861
Land				35,294	35,294	62,454	97,748

Total real estate construction				50,876	50,876	264,733	315,609
Equity lines of credit			74	8,669	8,743	732,338	741,081
Installment:							
Commercial				4	4	601	605
Consumer	150			870	1,020	131,022	132,042
Total installment	150			874	1,024	131,623	132,647
Lease financing						399,487	399,487
Total	$ 13,467	$ 4,511	$ 453	$ 112,026	$ 130,457	$ 12,178,928	$ 12,309,385

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 following table provides a summary of contractual interest foregone on nonaccrual loans, excluding covered loans, for 2012, 2011 and 2010:

	December 31,		
(in thousands)	**2012**	**2011**	**2010**
Interest income that would have been recognized had nonaccrual loans performed in accordance with their original terms	$ 8,549	$ 15,465	$ 17,869
Less: Interest income recognized on nonaccrual loans on a cash basis	(1,446)	(1,494)	(1,689)
Interest income foregone on nonaccrual loans	$ 7,103	$ 13,971	$ 16,180

Credit Quality Monitoring

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

	December 31, 2012			December 31, 2011		
(in thousands)	**Nonclassified**	**Classified**	**Total**	**Nonclassified**	**Classified**	**Total**
Commercial	$ 6,073,459	$ 137,894	$ 6,211,353	$ 4,732,663	$ 113,931	$ 4,846,594
Commercial real estate mortgages	2,705,469	124,225	2,829,694	1,930,001	180,748	2,110,749
Residential mortgages:						
Fixed	1,449,270	16,204	1,465,474	1,565,420	16,376	1,581,796
Variable	2,479,449	17,282	2,496,731	2,163,458	17,964	2,181,422
Total residential mortgages	3,928,719	33,486	3,962,205	3,728,878	34,340	3,763,218
Real estate construction:						
Construction	119,189	46,426	165,615	147,916	69,945	217,861
Land	27,492	29,673	57,165	43,717	54,031	97,748
Total real estate construction	146,681	76,099	222,780	191,633	123,976	315,609