

CITY NATIONAL CORP
Form 10-Q
May 09, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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)

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Delaware
(State of Incorporation)

95-2568550
(I.R.S. Employer Identification No.)

City National Plaza
555 South Flower Street, Los Angeles, California, 90071

(Address of principal executive offices)(Zip Code)

(213) 673-7700

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller
reporting company)

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

As of April 30, 2014, there were 54,961,350 shares of Common Stock outstanding (including unvested restricted shares).

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CITY NATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	\$ 425,427	\$ 183,227
Due from banks - interest-bearing	434,297	552,719
Federal funds sold and securities purchased under resale agreements	205,000	200,000
Securities available-for-sale - cost \$5,394,065 and \$6,267,691 at March 31, 2014 and December 31, 2013, respectively:		
Securities pledged as collateral	14,792	12,376
Held in portfolio	5,371,962	6,228,741
Securities held-to-maturity - fair value \$3,165,068 and \$2,883,935 at March 31, 2014 and December 31, 2013, respectively	3,202,997	2,957,843
Trading securities	61,608	82,357
Loans and leases, excluding covered loans	17,751,385	17,170,438
Less: Allowance for loan and lease losses	305,790	302,584
Loans and leases, excluding covered loans, net	17,445,595	16,867,854
Covered loans, net of allowance for loan losses	654,855	700,989
Net loans and leases	18,100,450	17,568,843
Premises and equipment, net	199,401	198,398
Deferred tax asset	212,611	217,990
Goodwill	642,622	642,622
Customer-relationship intangibles, net	39,134	40,621
Affordable housing investments	199,389	188,207
Customers acceptance liability	1,295	10,521
Other real estate owned (\$24,855 and \$25,481 covered by FDIC loss share at March 31, 2014 and December 31, 2013, respectively)	34,267	38,092
FDIC indemnification asset	84,851	89,227
Other assets	508,149	506,167
Total assets	\$ 29,738,252	\$ 29,717,951
Liabilities		
Demand deposits	\$ 15,664,029	\$ 16,058,968
Interest checking deposits	2,370,741	2,467,890
Money market deposits	6,610,811	6,022,457
Savings deposits	458,328	441,521
Time deposits-under \$100,000	172,024	176,488
Time deposits-\$100,000 and over	455,833	512,113
Total deposits	25,731,766	25,679,437
Short-term borrowings	4,107	3,889
Long-term debt	733,537	735,968
Reserve for off-balance sheet credit commitments	34,908	33,944
Acceptances outstanding	1,295	10,521
Other liabilities	391,038	473,438

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Total liabilities	26,896,651	26,937,197
Redeemable noncontrolling interest	45,641	39,768
Commitments and contingencies		
Shareholders' equity		
Preferred stock, par value \$1.00 per share; 5,000,000 shares authorized; 275,000 shares issued at March 31, 2014 and December 31, 2013	267,616	267,616
Common stock, par value \$1.00 per share; 75,000,000 shares authorized; 54,899,058 and 54,667,295 shares issued at March 31, 2014 and December 31, 2013, respectively	54,899	54,667
Additional paid-in capital	549,989	541,210
Accumulated other comprehensive loss	(4,363)	(15,641)
Retained earnings	1,950,356	1,918,163
Treasury shares, at cost - 388,156 and 483,523 shares at March 31, 2014 and December 31, 2013, respectively	(22,537)	(25,029)
Total common shareholders' equity	2,528,344	2,473,370
Total shareholders' equity	2,795,960	2,740,986
Total liabilities and shareholders' equity	\$ 29,738,252	\$ 29,717,951

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(in thousands, except per share amounts)	For the three months ended March 31,	
	2014	2013
Interest income		
Loans and leases	\$ 169,696	\$ 170,290
Securities	41,576	44,262
Due from banks - interest-bearing	443	112
Federal funds sold and securities purchased under resale agreements	1,370	1,136
Total interest income	213,085	215,800
Interest expense		
Deposits	2,134	2,939
Federal funds purchased and securities sold under repurchase agreements		278
Subordinated debt	6,104	6,106
Other long-term debt	5,049	4,979
Other short-term borrowings		425
Total interest expense	13,287	14,727
Net interest income	199,798	201,073
Provision for credit losses on loans and leases, excluding covered loans		
Provision for losses on covered loans	4,655	9,892
Net interest income after provision	195,143	191,181
Noninterest income		
Trust and investment fees	53,306	46,653
Brokerage and mutual fund fees	10,042	8,066
Cash management and deposit transaction charges	12,033	13,009
International services	10,395	9,619
FDIC loss sharing expense, net	(7,083)	(4,352)
Gain on disposal of assets	2,826	1,114
Gain on sale of securities	2,122	1,046
Other	17,607	18,373
Impairment loss on securities:		
Total other-than-temporary impairment loss on securities		(492)
Less: Portion of loss recognized in other comprehensive income		492
Net impairment loss recognized in earnings		
Total noninterest income	101,248	93,528
Noninterest expense		
Salaries and employee benefits	136,833	128,195
Net occupancy of premises	16,094	15,989
Legal and professional fees	12,950	11,952
Information services	9,346	9,391
Depreciation and amortization	7,828	8,172
Amortization of intangibles	1,487	1,932
Marketing and advertising	9,775	7,976
Office services and equipment	4,910	4,946
Other real estate owned	1,433	5,250
FDIC assessments	1,391	5,481
Other operating	12,846	12,056
Total noninterest expense	214,893	211,340
Income before income taxes	81,498	73,369

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Income taxes		26,288		21,261
Net income	\$	55,210	\$	52,108
Less: Net income attributable to noncontrolling interest		699		585
Net income attributable to City National Corporation	\$	54,511	\$	51,523
Less: Dividends on preferred stock		4,094		2,406
Net income available to common shareholders	\$	50,417	\$	49,117
Net income per common share, basic	\$	0.91	\$	0.90
Net income per common share, diluted	\$	0.90	\$	0.90
Weighted average common shares outstanding, basic		54,689		53,731
Weighted average common shares outstanding, diluted		55,429		54,068
Dividends per common share	\$	0.33	\$	

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(in thousands)	For the three months ended			
	March 31,			
	2014		2013	
Net income	\$	55,210	\$	52,108
Other comprehensive income (loss), net of tax:				
Securities available-for-sale:				
Net unrealized gains (losses) arising during the period		12,553		(11,523)
Reclassification adjustment for net gains included in net income		(1,275)		(516)
Non-credit related impairment loss				(286)
Net change on cash flow hedges				(35)
Total other comprehensive income (loss)		11,278		(12,360)
Comprehensive income	\$	66,488	\$	39,748
Less: Comprehensive income attributable to noncontrolling interest		699		585
Comprehensive income attributable to City National Corporation	\$	65,789	\$	39,163

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	For the three months ended March 31,	
	2014	2013
Cash Flows From Operating Activities		
Net income	\$ 55,210	\$ 52,108
Adjustments to net income:		
Provision for losses on covered loans	4,655	9,892
Amortization of intangibles	1,487	1,932
Depreciation and amortization	7,828	8,172
Share-based employee compensation expense	5,397	5,091
Deferred income tax benefit	(2,679)	(598)
Gain on disposal of assets	(2,826)	(1,114)
Gain on sale of securities	(2,122)	(1,046)
Other, net	3,720	1,472
Net change in:		
Trading securities	20,678	61,692
Other assets and other liabilities, net	(88,574)	(25,394)
Net cash provided by operating activities	2,774	112,207
Cash Flows From Investing Activities		
Purchase of securities available-for-sale	(330,444)	(293,985)
Sales of securities available-for-sale	377,115	1,034,250
Maturities and paydowns of securities available-for-sale	823,410	695,518
Purchase of securities held-to-maturity	(282,679)	(9,965)
Maturities and paydowns of securities held-to-maturity	36,337	6,736
Loan originations, net of principal collections	(523,514)	(313,834)
Net payments for premises and equipment	(8,831)	(11,128)
Other investing activities, net	6,676	23,927
Net cash provided by investing activities	98,070	1,131,519
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	52,329	(564,769)
Net decrease in federal funds purchased		(510,600)
Net increase in short-term borrowings		100,000
Issuance of long-term debt	7,907	5,603
Repayment of long-term debt	(10,088)	(214,081)
Proceeds from exercise of stock options	13,207	11,835
Tax benefit from exercise of stock options	2,970	2,627
Cash dividends paid	(22,141)	(2,406)
Other financing activities, net	(16,250)	(404)
Net cash provided by (used in) financing activities	27,934	(1,172,195)
Net increase in cash and cash equivalents	128,778	71,531
Cash and cash equivalents at beginning of year	935,946	415,405
Cash and cash equivalents at end of period	\$ 1,064,724	\$ 486,936
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 22,121	\$ 26,960
Income taxes	39,399	9,261
Non-cash investing activities:		

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Transfer of loans to other real estate owned	\$	2,033	\$	9,675
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See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(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	Total shareholders equity
Balance, January 1, 2013	53,885,886	\$ 169,920	\$ 53,886	\$ 490,339	\$ 86,582	\$ 1,738,957	\$ (34,366)	\$ 2,505,318
Net income (1)						51,523		51,523
Other comprehensive loss, net of tax					(12,360)			(12,360)
Issuance of shares under share-based compensation plans	247,179		247	(337)			8,926	8,836
Share-based employee compensation expense				4,297				4,297
Tax benefit from share-based compensation plans				1,651				1,651
Dividends:								
Preferred						(2,406)		(2,406)
Common						(33)		(33)
Net change in deferred compensation plans				122				122
Change in redeemable noncontrolling interest				(59)				(59)
Balance, March 31, 2013	54,133,065	\$ 169,920	\$ 54,133	\$ 496,013	\$ 74,222	\$ 1,788,041	\$ (25,440)	\$ 2,556,889
Balance, January 1, 2014	54,667,295	\$ 267,616	\$ 54,667	\$ 541,210	\$ (15,641)	\$ 1,918,163	\$ (25,029)	\$ 2,740,986
Net income (1)						54,511		54,511
Other comprehensive income, net of tax					11,278			11,278
Issuance of shares under share-based compensation plans	231,763		232	6,702			2,492	9,426
Share-based employee compensation expense				4,459				4,459
Tax benefit from share-based compensation plans				2,866				2,866
Dividends:								
Preferred						(4,094)		(4,094)
Common						(18,224)		(18,224)
Net change in deferred compensation plans				181				181
Change in redeemable noncontrolling interest				(5,429)				(5,429)
Balance, March 31, 2014	54,899,058	\$ 267,616	\$ 54,899	\$ 549,989	\$ (4,363)	\$ 1,950,356	\$ (22,537)	\$ 2,795,960

(1) Net income excludes net income attributable to redeemable noncontrolling interest of \$699 and \$585 for the three month periods ended March 31, 2014 and 2013, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets. See Note 17 of the Notes to the Unaudited Consolidated Financial Statements.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

City National Corporation (the "Corporation") is the holding company for City National Bank (the "Bank"). The Bank delivers banking, trust and investment services through 77 offices in Southern California, the San Francisco Bay area, Nevada, New York City, Nashville, Tennessee and Atlanta, Georgia. As of March 31, 2014, the Corporation had four 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. Redeemable noncontrolling interests are noncontrolling ownership interests that are redeemable at the option of the holder or outside the control of the issuer. The redeemable noncontrolling interests of third parties in the Corporation's investment advisory affiliates are not considered to be permanent equity and are reflected in the mezzanine section between liabilities and equity in the consolidated balance sheets. Noncontrolling interests' share of subsidiary earnings is reflected as Net income attributable to noncontrolling interest in the consolidated statements of income.

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

Use of Estimates

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

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Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Company is on the accrual basis of accounting for income and expenses. The results of operations reflect any adjustments, all of which are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q, and which, in the opinion of management, are necessary for a fair presentation of the results for the periods presented. In accordance with the usual practice of banks, assets and liabilities of individual trust, agency and fiduciary funds have not been included in the financial statements. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The results for the 2014 interim periods are not necessarily indicative of the results expected for the full year. The Company has not made any significant changes in its critical accounting policies or in its estimates and assumptions from those disclosed in its 2013 Annual Report other than the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on or after January 1, 2014. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2014.

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

Accounting Pronouncements

The following is a summary of accounting pronouncements that became effective during the three months ended March 31, 2014:

- In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* (ASU 2013-04). ASU 2013-04 provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements. Examples of obligations within the scope of the ASU include debt arrangements, other contractual obligations and settled litigation. ASU 2013-04 requires entities to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date, as the sum of (1) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors, and (2) any additional amount the reporting entity expects to pay on behalf of its co-obligors. Required disclosures include a description of the joint-and-several arrangement and the total outstanding amount of the obligation for all joint parties. Adoption of the new guidance on January 1, 2014 did not have a significant impact on the Company's consolidated financial statements.
- In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The new guidance requires an entity to present liabilities for unrecognized tax benefits in the statement of financial position as a reduction to a deferred tax asset for a net operating loss

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carryforward or a tax credit carryforward, except as follows: (1) to the extent a net operating loss carryforward or tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or (2) the tax law of the applicable jurisdiction does not require the entity to use and the entity does not intend to use the deferred tax asset for such purpose. In these situations, the unrecognized tax benefit should be presented in the balance sheet as a liability and should not be combined with deferred tax assets. Adoption of the new guidance on January 1, 2014 did not have a significant impact on the Company's consolidated financial statements.

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Note 1. Summary of Significant Accounting Policies (Continued)

The following is a summary of recently issued accounting pronouncements:

- In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-08). ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under the revised standard, a discontinued operation is (1) a component of an entity or group of components that has been disposed of by sale, disposed of other than by sale or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity's operations and financial results or (2) an acquired business or nonprofit activity that is classified as held for sale on the date of the acquisition. A strategic shift that has or will have a major effect on an entity's operations and financial results could include the disposal of (1) a major line of business, (2) a major geographical area, (3) a major equity method investment or (4) other major parts of an entity. Under current guidance, an entity is prohibited from reporting a discontinued operation if it has certain continuing cash flows or involvement with the component after the disposal. The new guidance eliminates these criteria. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014, and interim periods therein. The new guidance will be applied prospectively. Early adoption is permitted. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

- In January 2014, the FASB issued ASU 2014-01, *Investments-Equity Method and Joint Ventures (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects* (ASU 2014-01). ASU 2014-01 permits an entity to make an accounting policy election to apply a proportionate amortization method to the low income housing tax credit investments if certain conditions are met. Under the proportionate amortization method, an investor amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the amortization in the income statement as a component of income taxes attributable to continuing operations. The ASU becomes effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The provisions of ASU 2014-01 must be applied retrospectively to all periods presented. Early adoption is permitted. The Company is assessing the impact of the new guidance on its consolidated financial statements.

- In January 2014, the FASB issued ASU 2014-04, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure* (ASU 2014-04). ASU 2014-04 requires entities to reclassify consumer mortgage loans collateralized by residential real estate to OREO when either (1) the creditor obtains legal title to the residential real estate property or (2) the borrower conveys all interest in the property to the creditor to satisfy the loan by completing a deed in lieu of foreclosure or similar agreement. The ASU becomes effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Entities will have the option of adopting the guidance using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

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The following tables summarize assets and liabilities measured at fair value as of March 31, 2014 and December 31, 2013 by level in the fair value hierarchy:

(in thousands)	Fair Value Measurements at Reporting Date Using			
	Balance as of March 31, 2014	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	\$ 185,313	\$ 185,313	\$	\$
Federal agency - Debt	753,689		753,689	
Federal agency - MBS	125,613		125,613	
CMOs - Federal agency	3,689,946		3,689,946	
CMOs - Non-agency	36,348		36,348	
State and municipal	406,897		403,281	3,616
Other debt securities	178,408		178,408	
Equity securities and mutual funds	10,540	10,540		
Trading securities	61,608	58,354	3,254	
Derivatives (1)	35,469	3,088	32,381	
Total assets at fair value	\$ 5,483,831	\$ 257,295	\$ 5,222,920	\$ 3,616
Liabilities				
Derivatives	\$ 34,596	\$ 2,966	\$ 31,630	\$
Contingent consideration liability	34,061			34,061
FDIC clawback liability	12,931			12,931
Other liabilities	996		996	
Total liabilities at fair value (2)	\$ 82,584	\$ 2,966	\$ 32,626	\$ 46,992
Redeemable noncontrolling interest	\$ 45,641	\$	\$	\$ 45,641
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Residential mortgages	\$ 1,300	\$	\$	\$ 1,300
Other real estate owned (4)	17,536		355	17,181
Total assets at fair value	\$ 18,836	\$	\$ 355	\$ 18,481

(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 covered OREO.

Table of Contents**Note 2. Fair Value Measurements (Continued)**

	Fair Value Measurements at Reporting Date Using			
	Significant Other		Significant	
	Observable		Unobservable	
	Inputs		Inputs	
	Level 2		Level 3	
(in thousands)	Balance as of	Quoted Prices in		
	December 31,	Active Markets		
	2013	Level 1		
Measured on a Recurring Basis				
Assets				
Securities available-for-sale:				
U.S. Treasury	\$ 35,335	\$ 35,335	\$	\$
Federal agency - Debt	1,410,536		1,410,536	
Federal agency - MBS	157,226		157,226	
CMOs - Federal agency	3,997,298		3,997,298	
CMOs - Non-agency	37,462		37,462	
State and municipal	415,995		412,362	3,633
Other debt securities	178,822		178,822	
Equity securities and mutual funds	8,443	8,443		
Trading securities	82,357	80,659	1,698	
Derivatives (1)	34,613	3,487	31,126	
Total assets at fair value	\$ 6,358,087	\$ 127,924	\$ 6,226,530	\$ 3,633
Liabilities				
Derivatives	\$ 32,970	\$ 3,333	\$ 29,637	\$
Contingent consideration liability	49,900			49,900
FDIC clawback liability	11,967			11,967
Other liabilities	1,044		1,044	
Total liabilities at fair value (2)	\$ 95,881	\$ 3,333	\$ 30,681	\$ 61,867
Redeemable noncontrolling interest	\$ 39,768	\$	\$	\$ 39,768
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Commercial real estate mortgages	\$ 1,220	\$	\$	1,220
Residential mortgages	1,300			1,300
Other real estate owned (4)	18,251			18,251
Private equity and alternative investments	895			895
Total assets at fair value	\$ 21,666	\$	\$	\$ 21,666

(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 covered OREO.

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At March 31, 2014, \$5.48 billion, or approximately 18 percent, of the Company's total assets were recorded at fair value on a recurring basis, compared with \$6.36 billion, or 21 percent, at December 31, 2013. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than one percent of total assets were measured using Level 3 inputs. At March 31, 2014, \$82.6 million of the Company's total liabilities were recorded at fair value using mostly Level 2 or Level 3 inputs, compared with \$95.9 million at December 31, 2013. There were no transfers between Level 1 and Level 2 of the fair value hierarchy for assets or liabilities measured on a recurring basis during the three months ended March 31, 2014. At March 31, 2014, \$18.8 million of the Company's total assets were recorded at fair value on a nonrecurring basis, compared with \$21.7 million at December 31, 2013. These assets represent less than one percent of total assets and were measured using Level 2 or Level 3 inputs.

Table of Contents**Note 2. Fair Value Measurements (Continued)***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 three months ended March 31, 2014 and 2013.

Level 3 Assets and Liabilities Measured on a Recurring Basis

(in thousands)	For the three months ended March 31, 2014			For the three months ended March 31, 2013		
	Securities Available-for- Sale	Contingent Consideration Liability	FDIC Clawback Liability	Securities Available-for- Sale	Contingent Consideration Liability	FDIC Clawback Liability
Balance, beginning of period	\$ 3,633	\$ (49,900)	\$ (11,967)	\$ 65,187	\$ (47,724)	\$ (9,970)
Total realized/unrealized gains (losses):						
Included in earnings			(964)			(795)
Included in other comprehensive income	(17)			(199)		
Settlements		16,250		(3,555)		
Other (1)		(411)		52	(549)	
Balance, end of period	\$ 3,616	\$ (34,061)	\$ (12,931)	\$ 61,485	\$ (48,273)	\$ (10,765)

(1) Other rollforward activity consists of amortization of premiums and accretion of discounts recognized on the initial purchase of 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. 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 products or performance track records, 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. Refer to Note 17, *Noncontrolling Interest*, for a rollforward of activity for the three months ended March 31, 2014 and 2013.

Level 3 assets measured at fair value on a recurring basis consist of municipal auction rate securities that are included in securities available-for-sale. Municipal auction rate 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. During the first quarter of 2013, Level 3 assets measured on a recurring basis also included a collateralized debt obligation senior note classified as an available-for-sale security. This security was sold during the fourth quarter of 2013.

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. As part of its acquisition of Rochdale Investment Management, LLC and associated entities (collectively, "Rochdale"), the Company entered into a contingent consideration arrangement that requires 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.

During the first quarter of 2014, the Company made its first contingent consideration payment to Rochdale's former shareholders for approximately \$16.3 million. The fair value of the remaining 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 remaining consideration payment could be in the range of \$16 million to \$58 million, but will ultimately be determined based on actual future results. The contingent consideration liability is remeasured to fair value at each reporting date until its settlement.

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 three months ended March 31, 2014 and 2013. Paydowns of \$3.6 million were received on Level 3 assets measured on a recurring basis for the three months ended March 31, 2013.

Table of Contents**Note 2. Fair Value Measurements (Continued)***Nonrecurring Fair Value Measurements*

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

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

Information About Nonrecurring Level 3 Fair Value Measurements

(in thousands)	Fair Value at March 31, 2014	Valuation Method	Unobservable Inputs
Collateral dependent impaired loans and other real estate owned	\$ 18,481	Market	<ul style="list-style-type: none"> - Assumptions made in the appraisal process - Adjustments to external or internal appraised values. 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. - Probability weighting of broker price opinions - Management assumptions regarding market trends or other relevant factors

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

For assets measured at fair value on a nonrecurring basis, the following table presents the total net gains and losses, which include charge-offs, recoveries, specific reserves, OREO valuation write-downs and write-ups, gains and losses on sales of OREO, and impairment write-downs on private equity investments, recognized in the three months ended March 31, 2014 and 2013:

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(in thousands)	For the three months ended	
	March 31,	
	2014	2013
Collateral dependent impaired loans:		
Commercial real estate mortgages	\$ (5)	\$ 145
Residential mortgages		9
Home equity loans and lines of credit		116
Installment		(138)
Other real estate owned (1)	61	(2,853)
Private equity and alternative investments		(399)
Total net gains (losses) recognized	\$ 56	\$ (3,120)

(1) Net gains and losses on OREO include amounts related to covered OREO, a significant portion of which is payable to or reimbursable by the FDIC.

Table of Contents**Note 2. Fair Value Measurements (Continued)***Fair Value of Financial Instruments*

A financial instrument is broadly defined as cash, evidence of an ownership interest in another entity, or a contract that imposes a contractual obligation on one entity and conveys a corresponding right to a second entity to require delivery or exchange of a financial instrument. Refer to Note 1, *Summary of Significant Accounting Policies*, in the Company's 2013 Form 10-K 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.

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 determining 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.

(in millions)	Carrying Amount	Total Fair Value	March 31, 2014		
			Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	\$ 425.4	\$ 425.4	\$ 425.4	\$	\$
Due from banks - interest bearing	434.3	434.3	434.3		
Federal funds sold and securities purchased under resale agreements	205.0	206.5	5.0	201.5	
Securities held-to-maturity	3,203.0	3,165.1		3,165.1	
Loans and leases, net of allowance	17,445.6	18,005.1			18,005.1
Covered loans, net of allowance	654.9	698.8			698.8
FDIC indemnification asset	84.9	70.1			70.1
Investment in FHLB and FRB stock	57.2	57.2		57.2	
Financial Liabilities:					
Deposits	\$ 25,731.8	\$ 25,734.2	\$	\$ 25,103.9	\$ 630.3
Other short-term borrowings	4.1	4.1			4.1
Long-term debt	733.5	801.7		713.0	88.7

(in millions)	Carrying Amount	Total Fair Value	December 31, 2013		
			Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	\$ 183.2	\$ 183.2	\$ 183.2	\$	\$
Due from banks - interest bearing	552.7	552.7	552.7		

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Securities purchased under resale agreements	200.0	200.5	200.5	
Securities held-to-maturity	2,957.8	2,883.9	2,883.9	
Loans and leases, net of allowance	16,867.9	17,362.9		17,362.9
Covered loans, net of allowance	701.0	739.5		739.5
FDIC indemnification asset	89.2	74.3		74.3
Investment in FHLB and FRB stock	64.4	64.4	64.4	

Financial Liabilities:

Deposits	\$	25,679.4	\$	25,682.2	\$		\$	24,990.8	\$	691.4
Other short-term borrowings		3.9		3.9						3.9
Long-term debt		736.0		788.9				697.8		91.1

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Note 2. 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 purchased under resale agreements The fair value of securities purchased under term resale agreements is determined using a combination of quoted market prices and observable market inputs such as interest rates and credit spreads.

Securities held-to-maturity For securities held-to-maturity, the fair value is generally determined by quoted market prices, where available, or 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 Federal Home Loan Bank of San Francisco (FHLB) and Federal Reserve Bank (FRB) 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 FHLB and FRB 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.

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.

Table of Contents**Note 2. Fair Value Measurements (Continued)**

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 3. Securities

At March 31, 2014, the Company had total securities of \$8.65 billion, comprised of securities available-for-sale at fair value of \$5.39 billion, securities held-to-maturity at amortized cost of \$3.20 billion and trading securities at fair value of \$61.6 million. At December 31, 2013, the Company had total securities of \$9.28 billion, comprised of securities available-for-sale at fair value of \$6.24 billion, securities held-to-maturity at amortized cost of \$2.96 billion and trading securities at fair value of \$82.4 million.

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 March 31, 2014 and December 31, 2013:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2014				
Securities available-for-sale:				
U.S. Treasury	\$ 185,275	\$ 38	\$	\$ 185,313
Federal agency - Debt	756,828	648	(3,787)	753,689
Federal agency - MBS	124,698	3,119	(2,204)	125,613
CMOs - Federal agency	3,715,837	28,420	(54,311)	3,689,946
CMOs - Non-agency	36,773	351	(776)	36,348
State and municipal	398,960	8,055	(118)	406,897
Other debt securities	174,907	3,501		178,408
Total debt securities	5,393,278	44,132	(61,196)	5,376,214
Equity securities and mutual funds	787	9,753		10,540
Total securities available-for-sale	\$ 5,394,065	\$ 53,885	\$ (61,196)	\$ 5,386,754
Securities held-to-maturity (1):				
Federal agency - Debt	\$ 265,071	\$ 372	\$ (3,342)	\$ 262,101
Federal agency - MBS	450,334	3,601	(7,335)	446,600
CMOs - Federal agency	1,867,099	4,867	(32,845)	1,839,121
State and municipal	522,104	6,234	(9,287)	519,051
Other debt securities	98,389	55	(249)	98,195
Total securities held-to-maturity	\$ 3,202,997	\$ 15,129	\$ (53,058)	\$ 3,165,068

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

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
Securities available-for-sale:				
U.S. Treasury	\$ 35,312	\$ 23	\$	\$ 35,335
Federal agency - Debt	1,417,509	938	(7,911)	1,410,536
Federal agency - MBS	156,399	3,615	(2,788)	157,226
CMOs - Federal agency	4,037,348	30,721	(70,771)	3,997,298
CMOs - Non-agency	38,383	127	(1,048)	37,462
State and municipal	407,312	8,806	(123)	415,995
Other debt securities	175,091	3,731		178,822
Total debt securities	6,267,354	47,961	(82,641)	6,232,674
Equity securities and mutual funds	337	8,106		8,443
Total securities available-for-sale	\$ 6,267,691	\$ 56,067	\$ (82,641)	\$ 6,241,117
Securities held-to-maturity (1):				
Federal agency - Debt	\$ 178,413	\$ 133	\$ (5,122)	\$ 173,424
Federal agency - MBS	445,360	1,005	(11,930)	434,435
CMOs - Federal agency	1,781,219	1,839	(40,621)	1,742,437
State and municipal	454,155	421	(19,014)	435,562
Other debt securities	98,696		(619)	98,077
Total securities held-to-maturity	\$ 2,957,843	\$ 3,398	\$ (77,306)	\$ 2,883,935

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

Table of Contents**Note 3. Securities (Continued)**

Proceeds from sales of securities available-for-sale were \$377.1 million for the three months ended March 31, 2014 and \$1.03 billion for the three months ended March 31, 2013. There were no sales of securities held-to-maturity during the three months ended March 31, 2014 and 2013. The following table provides the gross realized gains and losses on the sales and calls of securities (including trading securities):

(in thousands)	For the three months ended			
	March 31,			
	2014		2013	
Gross realized gains	\$	2,602	\$	1,046
Gross realized losses		(480)		
Net realized gains	\$	2,122	\$	1,046

Interest income on securities for the three months ended March 31, 2014 and 2013 is comprised of: (i) taxable interest income of \$36.0 million and \$39.8 million, respectively (ii) nontaxable interest income of \$5.5 million and \$4.4 million, respectively, and (iii) dividend income of \$9 thousand and \$19 thousand, respectively.

Table of Contents**Note 3. Securities (Continued)**

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at March 31, 2014, except for maturities of 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	\$ 172,234	\$ 13,079	\$	\$	\$ 185,313
Federal agency - Debt	215,510	499,012	39,167		753,689
Federal agency - MBS		107,729	17,884		125,613
CMOs - Federal agency	98,666	3,244,429	346,851		3,689,946
CMOs - Non-agency	2,500	33,848			36,348
State and municipal	78,801	324,777		3,319	406,897
Other	29,345	149,063			178,408
Total debt securities available-for-sale	\$ 597,056	\$ 4,371,937	\$ 403,902	\$ 3,319	\$ 5,376,214
Amortized cost	\$ 594,486	\$ 4,385,520	\$ 409,872	\$ 3,400	\$ 5,393,278
Securities held-to-maturity:					
Federal agency - Debt	\$	\$ 11,082	\$ 57,513	\$ 196,476	\$ 265,071
Federal agency - MBS		54,660	377,913	17,761	450,334
CMOs - Federal agency		648,349	1,218,750		1,867,099
State and municipal	1,434	35,041	357,339	128,290	522,104
Other		98,389			98,389
Total debt securities held-to-maturity at amortized cost	\$ 1,434	\$ 847,521	\$ 2,011,515	\$ 342,527	\$ 3,202,997

Impairment Assessment

The Company performs a quarterly assessment of debt and equity securities in its investment portfolio to determine whether a decline in fair value below amortized cost is other-than-temporary. The Company's impairment assessment of debt securities takes the following factors into consideration: 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 and principal payments; external credit ratings; and whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. For equity securities, the evaluation of whether an impairment is other than temporary is based on whether and when an equity security will recover in value and whether the Company has the intent and ability to hold the equity security until the anticipated recovery in value occurs. If a decline in fair value is determined to be other-than-temporary, the cost basis of the individual security is written down to fair value which then becomes the security's new cost basis. The new cost basis is not adjusted for subsequent recoveries in fair value.

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Other-than-temporary impairment losses on equity securities are recognized in earnings. For debt securities, if the Company intends to sell an impaired security or it is more likely than not it will be required to sell a security prior to recovery of its amortized cost, an impairment loss is recognized in earnings for the entire difference between the amortized cost and fair value of the security on the measurement date. 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 amortized cost, the credit loss component of impairment is recognized in earnings. Impairment associated with factors other than credit, such as market liquidity, is recognized in other comprehensive income, net of tax.

Table of Contents**Note 3. Securities (Continued)***Securities Deemed to be Other-Than-Temporarily Impaired*

There were no impairment losses recorded in earnings on securities available-for-sale for the three months ended March 31, 2014 and 2013. There was no non-credit-related other-than-temporary impairment recognized in accumulated other comprehensive income or loss (AOCI) on securities available-for-sale at March 31, 2014. The Company recognized \$0.5 million of non-credit-related other-than-temporary impairment in AOCI on non-agency CMO securities classified as available-for-sale at March 31, 2013. No impairment losses were recognized in earnings or AOCI for securities held-to-maturity during the three months ended March 31, 2014 and 2013.

The following table summarizes the changes in cumulative credit-related other-than-temporary impairment recognized in earnings for debt securities for the three months ended March 31, 2014 and 2013. Credit-related other-than-temporary impairment that was recognized in earnings is reflected as an Initial credit-related impairment if the period reported is the first time the security had a credit impairment. A credit-related other-than-temporary impairment is reflected as a Subsequent credit-related impairment if the period reported is not the first time the security had a credit impairment. Cumulative impairment is reduced for securities with previously recognized credit-related impairment that were sold or redeemed during the period. Cumulative impairment is further adjusted for other changes in expected cash flows.

(in thousands)	For the three months ended March 31,			
	2014		2013	
Balance, beginning of period	\$	4,549	\$	16,486
Reduction for securities sold or redeemed				(12,761)
Reduction for increase in expected cash flows on securities for which OTTI was previously recognized				(49)
Balance, end of period	\$	4,549	\$	3,676

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 March 31, 2014 and December 31, 2013. 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.

(in thousands)	Less than 12 months		12 months or greater		Total	
	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
March 31, 2014						
Securities available-for-sale:						
Federal agency - Debt	\$ 573,402	\$ 3,787	\$	\$	\$ 573,402	\$ 3,787
Federal agency - MBS	17,921	76	42,974	2,128	60,895	2,204
CMOs - Federal agency	1,234,220	22,311	801,649	32,000	2,035,869	54,311
CMOs - Non-agency	7,751	160	8,506	616	16,257	776
State and municipal	7,096	18	4,249	100	11,345	118
Total securities available-for-sale	\$ 1,840,390	\$ 26,352	\$ 857,378	\$ 34,844	\$ 2,697,768	\$ 61,196

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Securities held-to-maturity:

Federal agency - Debt	\$	166,775	\$	3,342	\$		\$		\$	166,775	\$	3,342
Federal agency - MBS		199,582		5,623		24,992		1,712		224,574		7,335
CMOs - Federal agency		1,238,387		25,387		112,092		7,458		1,350,479		32,845
State and municipal		175,726		5,547		52,479		3,740		228,205		9,287
Other debt securities		80,571		249						80,571		249
Total securities held-to-maturity	\$	1,861,041	\$	40,148	\$	189,563	\$	12,910	\$	2,050,604	\$	53,058

Table of Contents**Note 3. Securities (Continued)**

(in thousands)	Less than 12 months		12 months or greater		Total	
	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
December 31, 2013						
Securities available-for-sale:						
Federal agency - Debt	\$ 1,026,142	\$ 7,911	\$	\$	\$ 1,026,142	\$ 7,911
Federal agency - MBS	17,962	85	43,492	2,703	61,454	2,788
CMOs - Federal agency	1,637,994	35,922	728,101	34,849	2,366,095	70,771
CMOs - Non-agency	10,056	319	8,483	729	18,539	1,048
State and municipal	16,521	39	4,266	84	20,787	123
Total securities available-for-sale	\$ 2,708,675	\$ 44,276	\$ 784,342	\$ 38,365	\$ 3,493,017	\$ 82,641
Securities held-to-maturity:						
Federal agency - Debt	\$ 156,290	\$ 5,122	\$	\$	\$ 156,290	\$ 5,122
Federal agency - MBS	321,090	10,513	15,338	1,417	336,428	11,930
CMOs - Federal agency	1,539,464	36,435	63,276	4,186	1,602,740	40,621
State and municipal	347,305	14,190	41,102	4,824	388,407	19,014
Other debt securities	98,077	619			98,077	619
Total securities held-to-maturity	\$ 2,462,226	\$ 66,879	\$ 119,716	\$ 10,427	\$ 2,581,942	\$ 77,306

At March 31, 2014, the Company had \$2.70 billion of securities available-for-sale and \$2.05 billion of securities held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position totaled 638 and included 35 federal agency debt securities, 35 federal agency MBS securities, 159 federal agency CMOs, 3 non-agency CMOs, 398 state and municipal securities and 8 other debt securities.

At December 31, 2013, the Company had \$3.49 billion of securities available-for-sale and \$2.58 billion of securities held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position totaled 809 and included 47 federal agency debt securities, 44 federal agency MBS, 182 federal agency CMOs, 4 non-agency CMOs, 520 state and municipal securities and 12 other debt securities.

Note 4. Other Investments*FHLB and FRB Stock*

The Company's investment in stock issued by the FHLB and FRB totaled \$57.2 million and \$64.4 million at March 31, 2014 and December 31, 2013, 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.

Private Equity and Alternative Investments

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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 \$31.6 million at March 31, 2014 and \$34.0 million at December 31, 2013. A summary of investments by fund type is provided below:

(in thousands) Fund Type	March 31, 2014	December 31, 2013
Private equity and venture capital	\$ 19,649	\$ 20,298
Real estate	7,635	7,646
Hedge	1,733	2,733
Other	2,572	3,275
Total	\$ 31,589	\$ 33,952

Table of Contents**Note 4. Other Investments (Continued)**

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. No impairment losses were recognized on private equity and alternative investments in the quarter ended March 31, 2014. The Company recognized impairment losses totaling \$0.4 million on its investments during the three months ended March 31, 2013.

Note 5. 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) (1)	March 31, 2014	December 31, 2013
Commercial	\$ 7,960,460	\$ 7,562,300
Commercial real estate mortgages	3,280,868	3,223,001
Residential mortgages	4,682,055	4,554,311
Real estate construction	389,188	367,004
Home equity loans and lines of credit	691,338	709,344
Installment	150,895	151,955
Lease financing	596,581	602,523
Loans and leases, excluding covered loans	17,751,385	17,170,438
Less: Allowance for loan and lease losses	(305,790)	(302,584)
Loans and leases, excluding covered loans, net	17,445,595	16,867,854
Covered loans	673,294	716,911
Less: Allowance for loan losses	(18,439)	(15,922)
Covered loans, net	654,855	700,989
Total loans and leases	\$ 18,424,679	\$ 17,887,349
Total loans and leases, net	\$ 18,100,450	\$ 17,568,843

(1) Commercial loans as of December 31, 2013 have been corrected to include \$158.2 million of loans that were previously reported as lease financing.

The loan amounts above include unamortized fees, net of deferred costs, of \$1.3 million and \$2.3 million as of March 31, 2014 and December 31, 2013, respectively.

Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. 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 March 31, 2014, California represented 74 percent of total loans outstanding and New York and Nevada represented 9 percent and 2 percent, respectively. The remaining 15 percent of total loans outstanding represented other states. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of Southern California. Credit performance also depends, to a lesser extent, on economic conditions in the San Francisco Bay area, New York and Nevada.

Within the Company's covered loan portfolio at March 31, 2014, the five states with the largest concentration were California (35 percent), Texas (12 percent), Nevada (7 percent), Arizona (5 percent) and Ohio (5 percent). The remaining 36 percent of total covered loans outstanding represented other states.

Table of Contents**Note 5. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)***Covered Loans*

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements. Covered loans were \$673.3 million as of March 31, 2014 and \$716.9 million as of December 31, 2013. Covered loans, net of allowance for loan losses, were \$654.9 million at March 31, 2014 and \$701.0 million at December 31, 2013.

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

(in thousands)	March 31, 2014	December 31, 2013
Commercial	\$ 9,766	\$ 10,009
Commercial real estate mortgages	625,404	666,628
Residential mortgages	4,926	4,976
Real estate construction	29,582	31,184
Home equity loans and lines of credit	3,313	3,695
Installment	303	419
Covered loans	673,294	716,911
Less: Allowance for loan losses	(18,439)	(15,922)
Covered loans, net	\$ 654,855	\$ 700,989

The following table provides information on covered loans and loss-sharing terms by acquired entity:

(in thousands)	Imperial Capital Bank	1st Pacific Bank	Sun West Bank	Nevada Commerce Bank	Total
Covered loans as of:					
March 31, 2014	\$ 596,082	\$ 35,643	\$ 17,567	\$ 24,002	\$ 673,294
December 31, 2013	630,754	40,110	18,761	27,286	716,911
As of March 31, 2014:					
FDIC indemnification asset	\$ 69,208	\$ 4,583	\$ 6,581	\$ 4,479	\$ 84,851
FDIC clawback liability		11,474	1,457		12,931
Expiration date of FDIC loss sharing:					
Commercial (1)	12/31/2016	6/30/2015	6/30/2015	6/30/2016	
Residential	12/31/2019	5/31/2020	5/31/2020	4/30/2021	
Termination date of FDIC loss-sharing agreements:					
Commercial (1)	12/19/2017	5/8/2018	5/29/2018	6/30/2019	
Residential	12/31/2019	5/31/2020	5/31/2020	4/30/2021	

(1) The Company is subject to sharing 80 percent of its recoveries with the FDIC up to the last day of the quarter in which the termination dates of the commercial loss-sharing agreements occur.

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

Table of Contents**Note 5. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

The excess of cash flows expected to be collected over the carrying value of the underlying acquired impaired loans is referred to as the accretable yield. This amount is not reported in the consolidated balance sheets, but is accreted into interest income 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 three months ended March 31, 2014 and 2013:

(in thousands)	For the three months ended March 31,	
	2014	2013
Balance, beginning of period	\$ 219,018	\$ 295,813
Accretion	(12,406)	(16,198)
Reclassifications from nonaccretable yield	4,305	2,063
Disposals and other	(8,826)	(13,290)
Balance, end of period	\$ 202,091	\$ 268,388

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 2014 was principally driven by positive changes in cash flows, resulting mainly 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 difference between the carrying value of the FDIC indemnification asset and the undiscounted cash flow that the Company expects to collect from the FDIC is accreted or amortized into noninterest income up until the expiration date of the FDIC loss sharing. Refer to the preceding table for a list of expiration dates of FDIC loss sharing by acquired entity. The FDIC indemnification asset is reviewed on a quarterly basis and adjusted based on changes in cash flow projections. The FDIC indemnification asset from all FDIC-assisted acquisitions was \$84.9 million at March 31, 2014 and \$89.2 million at December 31, 2013.

Credit Quality on Loans and Leases, Excluding Covered Loans***Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments***

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

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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.

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Note 5. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)

For commercial, non-homogenous loans that are not impaired, the Bank derives loss factors for each risk grade and loan type 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 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 is based on the present value of expected future cash flows discounted using the loan's contractual effective rate, the fair value of collateral or the secondary market value of the loan.

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 and 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.

Table of Contents**Note 5. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

The following is a summary of activity in the allowance for loan and lease losses and period-end recorded investment balances of loans evaluated for impairment, excluding covered loans, for the three months ended March 31, 2014 and 2013. 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) (2)	Commercial (1)	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Home Equity Loans and Lines of Credit	Installment	Qualitative	Total
Three months ended March 31, 2014								
Allowance for loan and lease losses:								
Beginning balance	\$ 117,103	\$ 50,678	\$ 11,540	\$ 6,351	\$ 6,677	\$ 1,842	\$ 108,393	\$ 302,584
Charge-offs	(1,959)	(5)	(482)		(16)	(46)		(2,508)
Recoveries	1,732	100	35	4,388	159	264		6,678
Net (charge-offs) recoveries	(227)	95	(447)	4,388	143	218		4,170
Provision (reduction) for credit losses	4,698	588	502	(4,271)	(401)	(236)	(880)	
Transfers to reserve for off-balance sheet credit commitments							(964)	(964)
Ending balance	\$ 121,574	\$ 51,361	\$ 11,595	\$ 6,468	\$ 6,419	\$ 1,824	\$ 106,549	\$ 305,790
Ending balance of allowance:								
Individually evaluated for impairment	\$ 2,557	\$ 300	\$	\$	\$	\$	\$	2,857
Collectively evaluated for impairment	119,017	51,061	11,595	6,468	6,419	1,824	106,549	302,933
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases, excluding covered loans	\$ 8,557,041	\$ 3,280,868	\$ 4,682,055	\$ 389,188	\$ 691,338	\$ 150,895	\$	\$ 17,751,385
Individually evaluated for impairment	28,683	41,924	7,904	18,788	3,447			100,746
Collectively evaluated for impairment	8,528,358	3,238,944	4,674,151	370,400	687,891	150,895		17,650,639
Three months ended March 31, 2013								
Allowance for loan and lease losses:								
Beginning balance	\$ 104,731	\$ 48,901	\$ 10,558	\$ 11,784	\$ 7,283	\$ 1,858	\$ 92,773	\$ 277,888
Charge-offs	(1,362)	(45)	(105)		(240)	(271)		(2,023)
Recoveries	3,535	48	37	2,666	128	417		6,831
Net recoveries (charge-offs)	2,173	3	(68)	2,666	(112)	146		4,808
	5,844	3,112	(3,237)	(4,488)	(2,328)	(779)	1,876	

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Provision (reduction) for credit losses													
Transfers to reserve for off-balance sheet credit commitments											(368)		(368)
Ending balance	\$	112,748	\$	52,016	\$	7,253	\$	9,962	\$	4,843	\$	1,225	\$ 94,281

Ending balance of allowance:																
Individually evaluated for impairment	\$	869	\$	1,148	\$		\$	867	\$		\$		\$		\$	2,884
Collectively evaluated for impairment		111,879		50,868		7,253		9,095		4,843		1,225		94,281		279,444

**Loans and leases,
excluding covered
loans**

Ending balance of loans and leases:														
Loans and leases, excluding covered loans	\$	7,170,370	\$	2,832,107	\$	4,027,741	\$	352,464	\$	696,679	\$	137,545	\$	15,216,906
Individually evaluated for impairment		26,639		42,747		7,963		44,346		2,140				123,835
Collectively evaluated for impairment		7,143,731		2,789,360		4,019,778		308,118		694,539		137,545		15,093,071

- (1) Includes lease financing loans.
- (2) Certain balances for the three months ended March 31, 2013 have been revised as a result of correcting the real estate construction loan balance to include loans that were previously reported as commercial real estate mortgages.

Off-balance sheet credit exposures include loan commitments and letters of credit. The following table provides a summary of activity in the reserve for off-balance sheet credit commitments for the three months ended March 31, 2014 and 2013:

		For the three months ended March 31,	
(in thousands)		2014	2013
Balance, beginning of period	\$	33,944	\$ 24,837
Transfers from allowance for loan and lease losses		964	368
Balance, end of period	\$	34,908	\$ 25,205

Table of Contents**Note 5. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)***Impaired Loans and Leases*

Information on impaired loans, excluding covered loans, at March 31, 2014, December 31, 2013 and March 31, 2013 is provided in the following tables:

(in thousands)	For the three months ended March 31, 2014				
	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2014					
With no related allowance recorded:					
Commercial	\$ 11,257	\$ 11,920	\$	\$ 14,489	\$ 137
Commercial real estate mortgages	36,562	39,660		34,666	438
Residential mortgages:					
Fixed	4,888	5,051		3,512	10
Variable	3,016	3,618		4,209	14
Total residential mortgages	7,904	8,669		7,721	24
Real estate construction:					
Construction	5,484	6,766		5,484	55
Land	13,304	26,800		13,458	34
Total real estate construction	18,788	33,566		18,942	89
Home equity loans and lines of credit	3,447	4,505		2,888	
Installment:					
Consumer				8	
Total installment				8	
Total with no related allowance	\$ 77,958	\$ 98,320	\$	\$ 78,714	\$ 688
With an allowance recorded:					
Commercial	\$ 17,426	\$ 19,663	\$ 2,557	\$ 15,781	\$
Commercial real estate mortgages	5,362	5,734	300	5,373	44
Residential mortgages:					
Variable				837	
Total residential mortgages				837	
Total with an allowance	\$ 22,788	\$ 25,397	\$ 2,857	\$ 21,991	\$ 44
Total impaired loans by type:					
Commercial	\$ 28,683	\$ 31,583	\$ 2,557	\$ 30,270	\$ 137
Commercial real estate mortgages	41,924	45,394	300	40,039	482
Residential mortgages	7,904	8,669		8,558	24
Real estate construction	18,788	33,566		18,942	89
Home equity loans and lines of credit	3,447	4,505		2,888	
Installment				8	
Total impaired loans	\$ 100,746	\$ 123,717	\$ 2,857	\$ 100,705	\$ 732

Table of Contents**Note 5. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
Year ended December 31, 2013			
With no related allowance recorded:			
Commercial	\$ 17,721	\$ 18,041	\$
Commercial real estate mortgages	32,770	37,555	
Residential mortgages:			
Fixed	2,135	2,295	
Variable	5,402	5,783	
Total residential mortgages	7,537	8,078	
Real estate construction:			
Construction	5,485	6,766	
Land	13,612	26,928	
Total real estate construction	19,097	33,694	
Home equity loans and lines of credit	2,329	3,375	
Installment:			
Consumer	16	24	
Total installment	16	24	
Total with no related allowance	\$ 79,470	\$ 100,767	\$
With an allowance recorded:			
Commercial	\$ 14,136	\$ 18,156	\$ 1,961
Commercial real estate mortgages	5,384	5,764	586
Residential mortgages:			
Variable	1,674	1,687	478
Total residential mortgages	1,674	1,687	478
Total with an allowance	\$ 21,194	\$ 25,607	\$ 3,025
Total impaired loans by type:			
Commercial	\$ 31,857	\$ 36,197	\$ 1,961
Commercial real estate mortgages	38,154	43,319	586
Residential mortgages	9,211	9,765	478
Real estate construction	19,097	33,694	
Home equity loans and lines of credit	2,329	3,375	
Installment	16	24	
Total impaired loans	\$ 100,664	\$ 126,374	\$ 3,025

Table of Contents**Note 5. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

(in thousands)	For the three months ended March 31, 2013				
	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2013					
With no related allowance recorded:					
Commercial	\$ 19,066	\$ 19,602	\$	\$ 18,914	\$ 419
Commercial real estate mortgages	29,403	34,927		36,142	235
Residential mortgages:					
Fixed	3,917	4,246		3,699	18
Variable	4,046	4,354		4,456	14
Total residential mortgages	7,963	8,600		8,155	32
Real estate construction:					
Construction	19,332	29,787		19,547	330
Land	12,164	24,071		18,956	34
Total real estate construction	31,496	53,858		38,503	364
Home equity loans and lines of credit	2,140	3,373		2,851	
Installment:					
Consumer				225	
Total installment				225	
Total with no related allowance	\$ 90,068	\$ 120,360	\$	\$ 104,790	\$ 1,050
With an allowance recorded:					
Commercial	\$ 7,573	\$ 7,608	\$ 869	\$ 7,544	\$ 46
Commercial real estate mortgages	13,344	13,689	1,148	11,773	168
Residential mortgages:					
Fixed				232	
Total residential mortgages				232	
Real estate construction:					
Land	12,850	13,165	867	6,425	213
Total real estate construction	12,850	13,165	867	6,425	213
Home equity loans and lines of credit				450	
Total with an allowance	\$ 33,767	\$ 34,462	\$ 2,884	\$ 26,424	\$ 427
Total impaired loans by type:					
Commercial	\$ 26,639	\$ 27,210	\$ 869	\$ 26,458	\$ 465
Commercial real estate mortgages	42,747	48,616	1,148	47,915	403
Residential mortgages	7,963	8,600		8,387	32
Real estate construction	44,346	67,023	867	44,928	577
Home equity loans and lines of credit	2,140	3,373		3,301	
Installment				225	
Total impaired loans	\$ 123,835	\$ 154,822	\$ 2,884	\$ 131,214	\$ 1,477

Table of Contents**Note 5. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

Impaired loans at March 31, 2014 and December 31, 2013 included \$39.4 million and \$42.1 million, respectively, of loans that are on accrual status. With the exception of restructured loans on accrual status and a limited number of loans on cash basis nonaccrual for which the full collection of principal and interest is expected, interest income is not recognized on impaired loans until the principal balance of these loans is paid off.

Troubled Debt Restructured Loans

The following table provides a summary of loans modified in a troubled debt restructuring during the three months ended March 31, 2014 and 2013:

(in thousands)	Number of Contracts	Pre-Modification Outstanding Principal	Period-End Outstanding Principal	Financial Effects (1)
Three months ended March 31, 2014				
Commercial	2	\$ 4,098	\$ 4,071	\$
Residential mortgages:				
Variable	1	676	676	
Total troubled debt restructured loans	3	\$ 4,774	\$ 4,747	\$
Three months ended March 31, 2013				
Commercial	4	\$ 1,727	\$ 1,704	\$
Home equity loans and lines of credit	1	345	345	
Total troubled debt restructured loans	5	\$ 2,072	\$ 2,049	\$

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

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 that it would not otherwise consider. Loans with pre-modification outstanding balances totaling \$4.8 million and \$2.1 million were modified in troubled debt restructurings during the three months ended March 31, 2014 and 2013, respectively. The concessions granted in the restructurings completed in 2014 largely consisted of maturity extensions.

The unpaid principal balance of troubled debt restructured (TDR) loans was \$55.5 million, before specific reserves of \$0.5 million, at March 31, 2014 and \$52.2 million, before specific reserves of \$0.8 million, at December 31, 2013. The net increase in TDR loans from the prior year-end was primarily attributable to \$4.8 million of additions that were partially offset by payments received on existing TDR loans and to the removal of \$0.5 million of loans that were restructured in an A/B note structure in prior year that are no longer reported as TDRs. 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.

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The Company had no TDR loans that subsequently defaulted during the three months ended March 31, 2014. The following table provides a summary of TDR loans that subsequently defaulted during the three months ended March 31, 2013, that had been modified as a troubled debt restructuring during the 12 months prior to their default. A TDR loan is considered to be in default when payments are 90 days or more past due.

(in thousands)	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve
Three months ended March 31, 2013			
Commercial	2	\$ 1,886	\$
Home equity loans and lines of credit	1	145	
Total loans that subsequently defaulted	3	\$ 2,031	\$

Table of Contents**Note 5. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

All TDR loans were performing in accordance with their restructured terms at March 31, 2014. As of March 31, 2014, commitments to lend additional funds on restructured loans totaled \$0.4 million.

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 March 31, 2014 and December 31, 2013 based upon the length of time the loans have been past due:

(in thousands) (1)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
March 31, 2014							
Commercial	\$ 3,827	\$ 930	\$	\$ 19,832	\$ 24,589	\$ 7,935,871	\$ 7,960,460
Commercial real estate mortgages	1,067			16,397	17,464	3,263,404	3,280,868
Residential mortgages:							
Fixed	96	756	379	6,177	7,408	1,435,183	1,442,591
Variable		1,702		3,789	5,491	3,233,973	3,239,464
Total residential mortgages	96	2,458	379	9,966	12,899	4,669,156	4,682,055
Real estate construction:							
Construction				5,467	5,467	355,631	361,098
Land				13,293	13,293	14,797	28,090
Total real estate construction				18,760	18,760	370,428	389,188
Home equity loans and lines of credit	471	400		6,040	6,911	684,427	691,338
Installment:							
Commercial	2	38		151	191	143	334
Consumer	175	196	45		416	150,145	150,561
Total installment	177	234	45	151	607	150,288	150,895
Lease financing	2,546			99	2,645	593,936	596,581
Total	\$ 8,184	\$ 4,022	\$ 424	\$ 71,245	\$ 83,875	\$ 17,667,510	\$ 17,751,385
December 31, 2013							
Commercial	\$ 6,582	\$ 362	\$	\$ 14,248	\$ 21,192	\$ 7,541,108	\$ 7,562,300
Commercial real estate mortgages	1,197	1,633		18,449	21,279	3,201,722	3,223,001
Residential mortgages:							
Fixed			379	3,789	4,168	1,436,283	1,440,451
Variable				7,872	7,872	3,105,988	3,113,860
Total residential mortgages			379	11,661	12,040	4,542,271	4,554,311
Real estate construction:							
Construction				5,467	5,467	332,131	337,598
Land		797		13,600	14,397	15,009	29,406
Total real estate construction		797		19,067	19,864	347,140	367,004
			74	5,144	5,218	704,126	709,344

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Home equity loans and lines of credit

Installment:

Commercial	1			1	361	362
Consumer	10	7	32	49	151,544	151,593
Total installment	11	7	32	50	151,905	151,955
Lease financing	401	126	50	577	601,946	602,523
Total	\$ 8,191	\$ 2,925	\$ 453	\$ 68,651	\$ 80,220	\$ 17,090,218
						\$ 17,170,438

(1) Commercial loans as of December 31, 2013 have been corrected to include \$158.2 million of loans that were previously reported as lease financing.

Table of Contents**Note 5. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)***Credit Quality Monitoring*

The Company closely monitors and assesses credit quality and credit risk in the loan and lease portfolio on an ongoing basis. Loan risk classifications are continuously reviewed and updated. The following tables provide a summary of the loan and lease portfolio, excluding covered loans, by loan type and credit quality classification as of March 31, 2014 and December 31, 2013. 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.

(in thousands) (1)	March 31, 2014			December 31, 2013		
	Nonclassified	Classified	Total	Nonclassified	Classified	Total
Commercial	\$ 7,790,299	\$ 170,161	\$ 7,960,460	\$ 7,416,487	\$ 145,813	\$ 7,562,300
Commercial real estate mortgages	3,193,358	87,510	3,280,868	3,139,707	83,294	3,223,001
Residential mortgages:						
Fixed	1,425,173	17,418	1,442,591	1,425,087	15,364	1,440,451
Variable	3,211,268	28,196	3,239,464	3,087,636	26,224	3,113,860
Total residential mortgages	4,636,441	45,614	4,682,055	4,512,723	41,588	4,554,311
Real estate construction:						
Construction	355,631	5,467	361,098	332,131	5,467	337,598
Land	14,797	13,293	28,090	15,522	13,884	29,406
Total real estate construction	370,428	18,760	389,188	347,653	19,351	367,004
Home equity loans and lines of credit	667,518	23,820	691,338	687,732	21,612	709,344
Installment:						
Commercial	334		334	362		362
Consumer	149,901	660	150,561	151,468	125	151,593
Total installment	150,235	660	150,895	151,830	125	151,955
Lease financing	592,425	4,156	596,581	598,821	3,702	602,523
Total	\$ 17,400,704	\$ 350,681	\$ 17,751,385	\$ 16,854,953	\$ 315,485	\$ 17,170,438

(1) Commercial loans as of December 31, 2013 have been corrected to include \$158.2 million of loans that were previously reported as lease financing.

Credit Quality on Covered Loans

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

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For the three months ended			
March 31,			
(in thousands)		2014	2013
Balance, beginning of period	\$	15,922	\$ 44,781
Provision for losses		4,655	9,892
Reduction in allowance due to loan removals		(2,138)	(12,319)
Balance, end of period	\$	18,439	\$ 42,354

The allowance for losses on covered loans was \$18.4 million, \$15.9 million and \$42.4 million as of March 31, 2014, December 31, 2013 and March 31, 2013, respectively. The Company recorded provision expense of \$4.7 million and \$9.9 million on covered loans for the three months ended March 31, 2014 and 2013, 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 or reversal of its allowance for loan losses as a result of that analysis. The provision expense or reversal of allowance 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 forecasts were based on the results of management's review of market conditions, the credit quality of the outstanding covered loans and the analysis of loan performance data since the acquisition of covered loans. The allowance for losses on covered loans is revised for any loan removals, which occur when a loan has been fully paid off, fully charged off, sold or transferred to OREO.

Table of Contents**Note 5. Loans, Allowance for Loan and Lease Losses, and Reserve for Off-Balance Sheet Credit Commitments (Continued)**

Covered loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. There were no covered loans that were on nonaccrual status as of March 31, 2014 and December 31, 2013.

At March 31, 2014, covered loans that were 30 to 89 days delinquent totaled \$16.6 million and covered loans that were 90 days or more past due on accrual status totaled \$38.5 million. At December 31, 2013, covered loans that were 30 to 89 days delinquent totaled \$15.5 million and covered loans that were 90 days or more past due on accrual status totaled \$45.7 million.

Note 6. Other Real Estate Owned

The following table provides a summary of OREO activity for the three months ended March 31, 2014 and 2013:

(in thousands)	For the three months ended March 31, 2014			For the three months ended March 31, 2013		
	Non-Covered OREO	Covered OREO	Total	Non-Covered OREO	Covered OREO	Total
Balance, beginning of period	\$ 12,611	\$ 25,481	\$ 38,092	\$ 21,027	\$ 58,276	\$ 79,303
Additions		2,033	2,033	382	9,293	9,675
Sales	(3,186)	(2,504)	(5,690)	(1,391)	(20,783)	(22,174)
Valuation adjustments	(13)	(155)	(168)	(232)	(3,035)	(3,267)
Balance, end of period	\$ 9,412	\$ 24,855	\$ 34,267	\$ 19,786	\$ 43,751	\$ 63,537

At March 31, 2014, OREO was \$34.3 million and included \$24.9 million of covered OREO. At December 31, 2013, OREO was \$38.1 million and included \$25.5 million of covered OREO. The balance of OREO at March 31, 2014 and December 31, 2013 is net of valuation allowances of \$14.6 million and \$17.4 million, respectively.

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 and income shared with the FDIC is recorded in FDIC loss sharing income (expense), net in the noninterest income section of the consolidated statements of income.

Table of Contents**Note 7. Borrowed Funds**

Short-term borrowings consist of funds with remaining maturities of one year or less and long-term debt consists of borrowings with remaining maturities greater than one year. The components of short-term borrowings and long-term debt as of March 31, 2014 and December 31, 2013 are provided below:

(in thousands) (1)	March 31, 2014	December 31, 2013
Short-term borrowings		
Current portion of nonrecourse debt (2)	\$ 4,107	\$ 3,889
Long-term debt		
Senior notes:		
City National Corporation - 5.25% Senior Notes Due September 2020	\$ 299,482	\$ 299,463
Subordinated debt:		
City National Bank - 9.00% Subordinated Notes Due July 2019 (3)	50,000	50,000
City National Bank - 9.00% Subordinated Notes Due August 2019	75,000	75,000
City National Bank - Fixed and Floating Subordinated Notes due August 2019 (4)	55,000	55,000
City National Bank - 5.375% Subordinated Notes Due July 2022	149,994	149,994
Junior subordinated debt:		
Floating Rate Business Bancorp Capital Trust I Securities due November 2034 (5)	5,155	5,155
Nonrecourse debt (2)	88,988	91,388
Other long-term debt (6)	9,918	9,968
Total long-term debt	\$ 733,537	\$ 735,968

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

(2) Nonrecourse debt bears interest at an average rate of 3.82 percent as of March 31, 2014 and has maturity dates ranging from April 2014 to February 2023.

(3) These notes bear a fixed interest rate of 9 percent for the initial five years from the date of issuance (July 15, 2009) and thereafter the rate is reset at the Bank's option to either LIBOR plus 6 percent or to prime plus 5 percent. These notes are callable by the Bank, subject to any prior approval requirements of the Office of the Comptroller of the Currency (OCC), on or after July 2014.

(4) These notes bear a fixed interest rate of 9 percent for the initial five years from the date of issuance (August 12, 2009) and thereafter bear an interest rate equal to the three-month LIBOR rate plus 6 percent. The rate is reset quarterly and is subject to an interest rate cap of 10 percent throughout the term of the notes. These notes are callable by the Bank, subject to any prior approval requirements of the OCC, on or after August 2014.

(5) These floating rate securities pay interest of three-month LIBOR plus 1.965 percent which is reset quarterly. As of March 31, 2014, the interest rate was approximately 2.20 percent.

(6) Other long-term debt includes a note payable that bears a fixed interest rate of 5.64 percent and is scheduled to mature on June 2017.

The Company holds debt affiliated with First American Equipment Finance (FAEF), its wholly-owned equipment finance subsidiary. 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

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minimum lease rentals assigned, FAEF receives a discounted cash payment. Proceeds from discounting are reflected in the table above as nonrecourse debt.

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Note 8. Shareholders Equity

On November 7, 2013, the Corporation issued 4 million depositary shares, each representing a 1/40th interest in a share of 6.75 percent Series D fixed-to-floating rate 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 \$97.7 million. Dividends on the preferred stock are payable quarterly, in arrears, if declared by the Corporation's Board of Directors at an annual rate of 6.75 percent. Effective for the February 7, 2024 dividend payment, the annual rate will adjust to three-month LIBOR plus 4.052 percent. 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 10 years from the date of issuance, or in whole but not in part within 90 days following a determination by the Corporation that the Corporation will not be entitled to treat the full liquidation preference amount then outstanding as tier 1 capital for purposes of the capital adequacy guidelines of the Federal Reserve (or its equivalent).

At March 31, 2014 and December 31, 2013, AOCI was comprised of net unrealized losses on securities available-for-sale of \$4.4 million and \$15.6 million, respectively.

The following table presents the tax effects allocated to each component of other comprehensive income (loss) for the three month periods ended March 31, 2014 and 2013:

(in thousands)	For the three months ended March 31, 2014			For the three months ended March 31, 2013		
	Pre-tax	Tax expense (benefit)	Net-of-tax	Pre-tax	Tax expense (benefit)	Net-of-tax
Securities available-for-sale:						
Net unrealized gains (losses) arising during the period	\$ 21,528	\$ 8,975	\$ 12,553	\$ (19,810)	\$ (8,287)	\$ (11,523)
Reclassification adjustment for net gains included in net income (1)	(2,192)	(917)	(1,275)	(887)	(371)	(516)
Non-credit related impairment loss				(492)	(206)	(286)
Total securities available-for-sale	19,336	8,058	11,278	(21,189)	(8,864)	(12,325)
Net change on cash flow hedges				(35)		(35)
Total other comprehensive income (loss)	\$ 19,336	\$ 8,058	\$ 11,278	\$ (21,224)	\$ (8,864)	\$ (12,360)

(1) Recognized in Gain on sale of securities in the consolidated statements of income.

The following table summarizes the Company's share repurchases for the three months ended March 31, 2014. All repurchases relate to shares withheld or previously owned shares used to pay taxes due upon vesting of restricted stock. There were no issuer repurchases of the Corporation's common stock as part of its repurchase plan for the three months ended March 31, 2014.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)
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January 1, 2014 to January 31, 2014	374	\$	75.12
February 1, 2014 to February 28, 2014	28,787		72.46
March 1, 2014 to March 31, 2014	22,147		75.32
Total share repurchases	51,308		73.71

Table of Contents**Note 9. Earnings per Common Share**

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

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

(in thousands, except per share amounts)	For the three months ended	
	March 31,	
	2014	2013
Basic EPS:		
Net income attributable to City National Corporation	\$ 54,511	\$ 51,523
Less: Dividends on preferred stock	4,094	2,406
Net income available to common shareholders	\$ 50,417	\$ 49,117
Less: Earnings allocated to participating securities	543	637
Earnings allocated to common shareholders	\$ 49,874	\$ 48,480
Weighted average common shares outstanding	54,689	53,731
Basic earnings per common share	\$ 0.91	\$ 0.90
Diluted EPS:		
Earnings allocated to common shareholders (1)	\$ 49,879	\$ 48,484
Weighted average common shares outstanding	54,689	53,731
Dilutive effect of equity awards	740	337
Weighted average diluted common shares outstanding	55,429	54,068
Diluted earnings per common share	\$ 0.90	\$ 0.90

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

The average price of the Company's common stock for the period is used to determine the dilutive effect of outstanding stock options. Antidilutive stock options are not included in the calculation of diluted EPS. There were 0.4 million and 2.0 million average outstanding stock options that were antidilutive for the three months ended March 31, 2014 and 2013, respectively.

Note 10. Share-Based Compensation

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On March 31, 2014, the Company had one share-based compensation plan, the Amended and Restated City National Corporation 2008 Omnibus Plan (the "Plan"), which was originally approved by the Company's shareholders on April 23, 2008. No new awards have been or will be granted under predecessor plans since the adoption of the Plan. The Plan permits the grant of stock options, restricted stock, restricted stock units, cash-settled restricted stock units, performance shares, performance share units, performance units and stock appreciation rights, or any combination thereof, to the Company's eligible employees and non-employee directors. No grants of performance shares, performance share units or stock appreciation rights had been made as of March 31, 2014. At March 31, 2014, there were approximately 2.8 million shares available for future grants. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for further discussion of the Company's share-based compensation plan.

The compensation cost recognized for all share-based awards was \$5.4 million and \$5.1 million for the three months ended March 31, 2014 and 2013. The total income tax benefit recognized in the consolidated statements of income for share-based compensation arrangements was \$2.3 million and \$2.1 million for the three months ended March 31, 2014 and 2013. The Company received \$13.2 million and \$11.8 million in cash for the exercise of stock options during the three months ended March 31, 2014 and 2013, respectively. The actual tax benefit realized for the tax deductions from stock option exercises was \$1.7 million and \$2.4 million for the three months ended March 31, 2014 and 2013, respectively.

Table of Contents**Note 10. Share-Based Compensation (Continued)**

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

	For the three months ended	
	March 31,	
	2014	2013
Weighted-average volatility	27.35%	28.12%
Dividend yield	1.79%	2.15%
Expected term (in years)	6.07	6.15
Risk-free interest rate	1.99%	1.24%

Using the Black-Scholes methodology, the weighted-average grant-date fair values of options granted during the three months ended March 31, 2014 and 2013 were \$17.94 and \$12.57, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2014 and 2013 was \$4.0 million and \$6.0 million, respectively.

A summary of option activity and related information for the three months ended March 31, 2014 is presented below:

Options	Number of Shares (in thousands)	Weighted Average Exercise Price (per share)	Aggregate Intrinsic Value (in thousands) (1)	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2014	4,075	\$ 55.50		
Granted	448	73.63		
Exercised	(232)	56.99		
Forfeited or expired	(15)	57.48		
Outstanding at March 31, 2014	4,276	\$ 57.31	\$ 91,538	5.97
Exercisable at March 31, 2014	2,929	\$ 56.06	\$ 66,383	4.68

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

A summary of changes in unvested options and related information for the three months ended March 31, 2014 is presented below:

Unvested Options	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2014	1,425	\$ 13.64

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Granted	448	17.94
Vested	(517)	14.57
Forfeited	(9)	12.95
Unvested at March 31, 2014	1,347	\$ 14.72

The number of options vested during the three months ended March 31, 2014 and 2013 was 517,130 and 643,601, respectively. The total fair value of options vested during the three months ended March 31, 2014 and 2013 was \$7.5 million and \$7.8 million, respectively. As of March 31, 2014, there was \$17.0 million of unrecognized compensation cost related to unvested stock options granted under the Company's plans. That cost is expected to be recognized over a weighted-average period of 2.8 years.

Table of Contents**Note 10. Share-Based Compensation (Continued)**

A summary of changes in restricted stock and related information for the three months ended March 31, 2014 is presented below:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Restricted Stock (1)		
Unvested at January 1, 2014	608	\$ 53.03
Granted	117	73.63
Vested	(165)	43.79
Forfeited	(2)	55.09
Unvested at March 31, 2014	558	\$ 60.09

(1) Includes restricted stock units.

Restricted stock is valued at the closing price of the Company's stock on the date of award. The weighted-average grant-date fair value of restricted stock granted during the three months ended March 31, 2014 and 2013 was \$73.63 and \$55.73, respectively. The number of restricted shares vested during the three months ended March 31, 2014 and 2013 was 164,938 and 181,469, respectively. The total fair value of restricted stock vested during the three months ended March 31, 2014 and 2013 was \$7.2 million and \$8.3 million, respectively. As of March 31, 2014, the unrecognized compensation cost related to restricted stock granted under the Company's plans was \$21.3 million. That cost is expected to be recognized over a weighted-average period of 3.2 years.

Cash-settled restricted stock units are initially valued at the closing price of the Company's stock on the date of award. They are subsequently remeasured to the closing price of the Company's stock at each reporting date until settlement. A summary of changes in cash-settled restricted stock units for the three months ended March 31, 2014 is presented below:

	Number of Shares (in thousands)
Cash-Settled Restricted Stock Units	
Unvested at January 1, 2014	190
Granted	15
Vested	(23)
Forfeited	(1)
Unvested at March 31, 2014	181

Table of Contents**Note 11. Derivative Instruments**

The following table summarizes the fair value and balance sheet classification of derivative instruments as of March 31, 2014 and December 31, 2013. The notional amount of the contract is not recorded on the consolidated balance sheets, but is used as the basis for determining the amount of interest payments to be exchanged between the counterparties. If a counterparty fails to perform, the Company's counterparty credit risk is equal to the amount reported as a derivative asset.

Notional Amounts and Fair Values of Derivative Instruments

(in millions) (1)	Notional Amount	March 31, 2014 Derivative Assets	Derivative Liabilities	Notional Amount	December 31, 2013 Derivative Assets	Derivative Liabilities
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Swaps	\$ 2,870.2	\$ 40.5	\$ 39.9	\$ 2,769.4	\$ 42.7	\$ 41.7
Interest-rate caps, floors and collars	231.9	0.3	0.3	251.6	0.5	0.5
Options purchased	0.4	0.3	0.3	1.5	0.6	0.6
Options written	0.4			1.5		
Total interest-rate contracts	\$ 3,102.9	\$ 41.1	\$ 40.5	\$ 3,024.0	\$ 43.8	\$ 42.8
Option contracts	\$ 1.8	\$ 0.2	\$	\$ 1.9	\$ 0.4	\$
Foreign exchange contracts:						
Spot and forward contracts	\$ 509.4	\$ 3.1	\$ 3.0	\$ 461.4	\$ 3.5	\$ 3.3
Options purchased	5.3			6.3		
Options written	5.3	0.2	0.2	6.3	0.2	0.2
Total foreign exchange contracts	\$ 520.0	\$ 3.3	\$ 3.2	\$ 474.0	\$ 3.7	\$ 3.5
Total derivatives not designated as hedging instruments	\$ 3,624.7	\$ 44.6	\$ 43.7	\$ 3,499.9	\$ 47.9	\$ 46.3

(1) The Company offsets mark-to-market adjustments, interest receivable, interest payable and cash collateral received on interest-rate swaps that are executed with the same counterparty under a master netting agreement, and reports the net balance in other assets or other liabilities in the consolidated balance sheets. For purposes of this disclosure, mark-to-market adjustments, interest receivable and interest payable are presented on a gross basis and cash collateral is excluded from fair value amounts.

Derivatives Designated as Hedging Instruments

The Company had no hedging instruments as of March 31, 2014 and December 31, 2013.

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The periodic net settlement of interest-rate swaps is recorded as an adjustment to interest income or interest expense. There was no net interest income recognized on interest rate swaps for the three months ended March 31, 2014. Interest rate swaps increased net interest income by \$1.1 million for the three months ended March 31, 2013.

Changes in fair value of the effective portion of cash flow hedges are reported in AOCI. When the cash flows associated with the hedged item are realized, the gain or loss included in AOCI is recognized in Interest income on loans and leases, the same location in the consolidated statements of income as the income on the hedged item. There were no cash flow hedges outstanding during the three-month periods ended March 31, 2014 and 2013. The \$0.1 million of gains on cash flow hedges reclassified from AOCI to interest income for the three months ended March 31, 2013 represents the amortization of deferred gains on cash flow hedges that were terminated in 2010 prior to their respective maturity dates for which the hedge transactions had yet to occur. The balance of deferred gain on terminated swaps was fully amortized in 2013.

Table of Contents**Note 11. Derivative Instruments (Continued)***Derivatives Not Designated as Hedging Instruments*

Derivative contracts not designated as hedges are composed primarily of interest rate contracts with clients that are offset by paired trades with unrelated bank counterparties and foreign exchange contracts. Derivative contracts not designated as hedges are carried at fair value each reporting period with changes in fair value recorded as a part of Noninterest income in the consolidated statements of income. The table below provides the amount of gains and losses on these derivative contracts for the three months ended March 31, 2014 and 2013:

(in millions) Derivatives Not Designated as Hedging Instruments	Location in Consolidated Statements of Income	For the three months ended March 31,	
		2014	2013
Interest-rate contracts	Other noninterest income	\$ (0.5)	\$ (0.3)
Option contracts	Other noninterest income	0.1	0.3
Foreign exchange contracts	International services income	7.2	5.9
Total income		\$ 6.8	\$ 5.9

Credit Risk Exposure and Collateral

The Company's swap agreements require the deposit of cash or marketable debt securities as collateral based on certain risk thresholds. These requirements apply individually to the Corporation and to the Bank. Additionally, certain of the Company's swap contracts contain security agreements that include credit-risk-related contingent features. Under these agreements, the collateral requirements are based on the Company's credit rating from the major credit rating agencies. The amount of collateral required may vary by counterparty based on a range of credit ratings that correspond with exposure thresholds established in the derivative agreements. If the credit ratings on the Company's debt were to fall below the level associated with a particular exposure threshold and the derivatives with a counterparty are in a net liability position that exceeds that threshold, the counterparty could request immediate payment or delivery of collateral for the difference between the net liability amount and the exposure threshold. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position on March 31, 2014 was \$6.4 million. The Company delivered collateral in the form of securities valued at \$4.9 million and cash totaling \$12.7 million on swap agreements that had credit-risk contingent features that were in a net liability position at March 31, 2014.

The Company's interest-rate swaps had \$2.2 million and \$2.4 million of credit risk exposure at March 31, 2014 and December 31, 2013, respectively. The credit exposure represents the cost to replace, on a present value basis and at current market rates, all contracts by trading counterparty having an aggregate positive market value, net of margin collateral received. The Company enters into master netting agreements with swap counterparties to mitigate credit risk. Under these agreements, the net amount due from or payable to each counterparty is settled on the contract payment date. No collateral had been received from swap counterparties at March 31, 2014 and December 31, 2013. The Company delivered collateral valued at \$9.9 million on swap agreements that did not have credit-risk contingent features at March 31, 2014.

See Note 12, *Balance Sheet Offsetting*, of the Notes to the Unaudited Consolidated Financial Statements for additional information about the Company's derivative instruments subject to master netting agreements.

Table of Contents**Note 12. Balance Sheet Offsetting**

Assets and liabilities relating to certain financial instruments, including derivatives, securities purchased under resale agreements (reverse repurchase agreements) and securities sold under repurchase agreements (repurchase agreements), may be eligible for offset in the consolidated balance sheet as permitted under accounting guidance. The Company is party to transactions involving derivative instruments that are subject to enforceable master netting arrangements or similar agreements. Under these agreements, the Company may have the right to net settle multiple contracts with the same counterparty. Certain derivative transactions may require the Company to receive or pledge marketable debt securities as collateral based on certain risk thresholds. The Company also enters into reverse repurchase agreements under which it has the right to claim securities collateral if the counterparty fails to perform. Securities that have been pledged by counterparties as collateral are not recorded in the Company's consolidated balance sheet unless the counterparty defaults. Securities that have been pledged by the Company to counterparties continue to be reported in the Company's consolidated balance sheet unless the Company defaults.

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. Certain derivative transactions with clients are not subject to master netting arrangements and have been excluded from the balance sheet offsetting table below.

The following table provides information about financial instruments that are eligible for offset at March 31, 2014 and December 31, 2013:

(in thousands)	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet Securities Collateral	Cash Collateral	Net Amount
March 31, 2014						
Financial assets:						
Derivatives not designated as hedging instruments	\$ 12,487	\$ (9,097)	\$ 3,390	\$	\$	\$ 3,390
Reverse repurchase agreements	200,000		200,000	(200,000)		
Total financial assets	\$ 212,487	\$ (9,097)	\$ 203,390	\$ (200,000)	\$	\$ 3,390
Financial liabilities:						
Derivatives not designated as hedging instruments	\$ 34,955	\$ (9,097)	\$ 25,858	\$ (14,792)	\$ (12,671)	\$ (1,605)
Total financial liabilities	\$ 34,955	\$ (9,097)	\$ 25,858	\$ (14,792)	\$ (12,671)	\$ (1,605)
December 31, 2013						
Financial assets:						
Derivatives not designated as hedging instruments	\$ 18,749	\$ (13,323)	\$ 5,426	\$	\$	\$ 5,426
Reverse repurchase agreements	200,000		200,000	(200,000)		
Total financial assets	\$ 218,749	\$ (13,323)	\$ 205,426	\$ (200,000)	\$	\$ 5,426
Financial liabilities:						
Derivatives not designated as hedging instruments	\$ 32,193	\$ (13,323)	\$ 18,870	\$ (12,376)	\$ (7,761)	\$ (1,267)
Total financial liabilities	\$ 32,193	\$ (13,323)	\$ 18,870	\$ (12,376)	\$ (7,761)	\$ (1,267)

Note 13. Income Taxes

The Company recognized income tax expense of \$26.3 million and \$21.3 million for the three months ended March 31, 2014 and 2013, respectively.

The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense. The Company recognized a nominal amount of interest and penalties expense for the three months ended March 31, 2014 and 2013. The Company had approximately \$3.0 million of accrued interest and penalties as of March 31, 2014 and December 31, 2013.

The Company and its subsidiaries file federal and various state income tax returns. The Company is currently being audited by the Internal Revenue Service for the tax year 2013 and 2014. The Company is also under audit with the California Franchise Tax Board for the tax years 2005 to 2007. The financial statement impact resulting from completion of these audits is not expected to be material.

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Note 13. Income Taxes (Continued)

From time to time, there may be differences in opinion with respect to the tax treatment of certain transactions. If a tax position which was previously recognized on the consolidated financial statements is no longer more likely than not to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. The Company did not have any material tax positions for which previously recognized benefits were derecognized during the three month period ended March 31, 2014.

Note 14. Employee Benefit Plans

Defined Contribution Plan

The Company has a profit-sharing retirement plan with an Internal Revenue Code Section 401(k) feature covering eligible employees. Employer contributions are made annually into a trust fund and are allocated to participants based on their salaries. The profit sharing contribution requirement is based on a percentage of annual operating income subject to a percentage of salary cap. Eligible employees may contribute up to 50 percent of their salary to the 401(k) plan, but not more than the maximum allowed under Internal Revenue Service (IRS) regulations. The Company matches 50 percent of the first 6 percent of covered compensation. The Company recorded total profit sharing and matching contribution expense of \$5.3 million and \$4.8 million for the three months ended March 31, 2014 and 2013, respectively.

Deferred Compensation Plan

The Company offers a deferred compensation plan for eligible employees and non-employee directors. Participants under the employee plan may make an annual irrevocable election to defer a portion of base salary and up to 100 percent of commission and incentive compensation while employed with the Company. Participants under the non-employee director plan also may make an annual irrevocable election to defer all or part of annual retainers, annual awards, committee chair retainers and meeting fees (collectively, directors fees) until board service with the Company ceases. The deferred compensation plans are nonqualified plans under IRS regulations. Deferrals are made on a pretax basis and are allocated among the investment crediting options available under the plans as directed by the plan participants. The Company informally funds plan benefits through the purchase of life insurance policies which are recorded in Other assets on the consolidated balance sheets. Participant deferrals are recorded in Other liabilities on the consolidated balance sheets. Employee salaries and non-employee directors fees deferred under the plan are charged to Salaries and employee benefits and Other operating expense, respectively, on the consolidated statements of income. Earnings on plan assets, net of benefits payable to plan participants, are reported in Salaries and employee benefits on the consolidated statements of income, and was \$0.1 million and \$0.2 million for the three months ended March 31, 2014 and 2013, respectively.

Note 15. Contingencies

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

Note 16. Variable Interest Entities

The Company holds ownership interests in certain special-purpose entities formed to provide affordable housing. The Company evaluates its interest in these entities to determine whether they meet the definition of a VIE and whether the Company is required to consolidate these entities. The Company is not the primary beneficiary of the affordable housing VIEs in which it holds interests and is therefore not required to consolidate these entities. The investment in these entities is initially recorded at cost, which approximates the maximum exposure to loss as a result of the Company's involvement with these unconsolidated entities. Subsequently, the carrying value is amortized over the stream of available tax credits and benefits. The Company expects to recover its investments over time, primarily through realization of federal low-income housing tax credits. The balance of the investments in these entities was \$199.4 million and \$188.2 million at March 31, 2014 and December 31, 2013, respectively, and is included in Affordable housing investments in the consolidated balance sheets. Unfunded commitments for affordable housing investments were \$82.5 million at March 31, 2014. These unfunded commitments are recorded in Other liabilities in the consolidated balance sheets.

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Note 16. Variable Interest Entities (Continued)

Of the affordable housing investments held as of March 31, 2014, the Company had a significant variable interest in four affordable housing partnerships. These interests were acquired at various times from 1998 to 2001. The Company's maximum exposure to loss as a result of its involvement with these entities is limited to the \$1.1 million aggregate carrying value of these investments at March 31, 2014. There were no unfunded commitments for these affordable housing investments at March 31, 2014.

The Company also has ownership interests in several private equity and alternative investment funds that are VIEs. The Company is not a primary beneficiary and, therefore, is not required to consolidate these VIEs. The investment in these entities is carried at cost and net of impairments, which approximates the maximum exposure to loss as a result of the Company's involvement with these entities. The Company expects to recover its investments over time, primarily through the allocation of fund income, gains or losses on the sale of fund assets, dividends or interest income. The balance in these entities was \$31.6 million and \$34.0 million at March 31, 2014 and December 31, 2013, respectively, and is included in Other assets in the consolidated balance sheets. Income associated with these investments is reported in Other noninterest income in the consolidated statements of income.

Note 17. Noncontrolling Interest

In accordance with ASC Topic 810, *Consolidation*, and EITF Topic D-98, *Classification and Measurement of Redeemable Securities* (Topic D-98), the Company reports noncontrolling interest in its majority-owned affiliates as Redeemable noncontrolling interest in the mezzanine section between liabilities and equity in the consolidated financial statements. Topic D-98 specifies that securities that are redeemable at the option of the holder or outside the control of the issuer are not considered permanent equity and should be classified in the mezzanine section.

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

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

As of March 31, 2014, affiliate noncontrolling owners held equity interests with an estimated fair value of \$45.6 million. This estimate reflects the maximum obligation to purchase equity interests in the affiliates. The events which would require the Company to purchase the equity interests may occur in the near term or over a longer period of time. The terms of the put provisions vary by agreement, but the value of the put is at the approximate fair value of the interests. The parent company carries key man life insurance policies to fund a portion of these conditional purchase obligations in the event of the death of certain key holders.

Table of Contents**Note 17. Noncontrolling Interest (Continued)**

The following is a summary of activity for redeemable noncontrolling interest for the three months ended March 31, 2014 and 2013:

(in thousands)	For the three months ended			
	March 31,			
	2014		2013	
Balance, beginning of period	\$	39,768	\$	41,112
Net income		699		585
Distributions to redeemable noncontrolling interest		(347)		(319)
Additions and redemptions, net		92		(324)
Adjustments to fair value		5,429		59
Balance, end of period	\$	45,641	\$	41,113

Note 18. Segment Results

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

The Commercial and Private Banking reportable segment is the aggregation of the Commercial and Private Banking, Real Estate, Entertainment, Corporate Banking, Core Branch Banking and FAEF operating segments. 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 to small and medium-sized businesses, entrepreneurs and affluent individuals. This segment primarily serves clients in California, New York, Nevada, Tennessee and Georgia. FAEF serves clients nationwide.

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

The Other segment includes all other subsidiaries of the Company, the corporate administration departments, including the Treasury Department and the Asset Liability Funding Center, that have not been allocated to the other segments, and inter-segment eliminations for revenue recognized in multiple segments for management reporting purposes. The Company uses traditional matched-maturity funds transfer pricing

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methodology. However, both positive and negative variances occur over time when transfer pricing non-maturing balance sheet items such as demand deposits. These variances, offset in the Funding Center, are evaluated at least annually by management and allocated back to the business segments as deemed necessary.

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Note 18. Segment Results (Continued)

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

Effective with second quarter 2013 reporting, the methodology for allocating the provision for income taxes to the segments was revised to base the allocation on the Company's effective tax rate. The allocation was previously based on the statutory tax rate. Prior period segment results have been revised to reflect this change in methodology.

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

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

Selected financial information for each segment is presented in the following tables. Commercial and Private Banking includes all revenue and costs from products and services utilized by clients of Commercial and Private Banking, including both revenue and costs for Wealth Management products and services. The revenues and costs associated with Wealth Management products and services that are allocated to Commercial and Private Banking for management reporting purposes are eliminated in the Other segment. The current period reflects any changes made in the process or methodology for allocations to the reportable segments. Prior period segment results have been revised to conform to current period presentation.

Table of Contents**Note 18. Segment Results (Continued)**

(in thousands)	For the three months ended March 31, 2014				Consolidated Company
	Commercial and Private Banking	Wealth Management	Other		
Earnings Summary:					
Net interest income	\$ 189,542	\$ 325	\$ 9,931	\$	199,798
Provision for losses on covered loans	4,655				4,655
Noninterest income	48,214	64,093	(11,059)		101,248
Depreciation and amortization	2,821	1,747	4,747		9,315
Noninterest expense	171,857	52,944	(19,223)		205,578
Income before income taxes	58,423	9,727	13,348		81,498
Provision for income taxes	19,008	2,937	4,343		26,288
Net income	39,415	6,790	9,005		55,210
Less: Net income attributable to noncontrolling interest		699			699
Net income attributable to City National Corporation	\$ 39,415	\$ 6,091	\$ 9,005	\$	54,511