CITY NATIONAL CORP
Form 10-Q
November 12, 2013
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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 September 30, 2013

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 1-10521

CITY NATIONAL CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

City National Plaza

555 South Flower Street, Los Angeles, California, 90071

(Address of principal executive offices)(Zip Code)

(213) 673-7700

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of October 31, 2013, there were 54,403,877 shares of Common Stock outstanding (including unvested restricted shares).

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITY NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	$ 301,106	$ 151,969
Due from banks - interest-bearing	1,045,608	246,336
Federal funds sold and securities purchased under resale agreements	200,000	17,100
Securities available-for-sale - cost $6,912,931 and $9,057,238 at September 30, 2013 and December 31, 2012, respectively:		
Securities pledged as collateral	13,638	48,697
Held in portfolio	6,881,492	9,157,292
Securities held-to-maturity - fair value $1,608,074 and $1,446,599 at September 30, 2013 and December 31, 2012, respectively	1,649,520	1,398,403
Trading securities	51,451	115,059
Loans and leases, excluding covered loans	16,566,133	14,818,295
Less: Allowance for loan and lease losses	295,947	277,888
Loans and leases, excluding covered loans, net	16,270,186	14,540,407
Covered loans, net of allowance for loan losses	754,190	986,223
Net loans and leases	17,024,376	15,526,630
Premises and equipment, net	168,600	149,433
Deferred tax asset	196,021	124,461
Goodwill	642,622	642,622
Customer-relationship intangibles, net	42,343	48,139
Affordable housing investments	182,088	154,011
Customers acceptance liability	1,661	7,859
Other real estate owned ($29,818 and $58,276 covered by FDIC loss share at September 30, 2013 and December 31, 2012, respectively)	48,723	79,303
FDIC indemnification asset	101,124	150,018
Other assets	509,031	601,160
Total assets	$ 29,059,404	$ 28,618,492
Liabilities		
Demand deposits	$ 15,205,973	$ 14,264,797
Interest checking deposits	2,247,433	2,459,972
Money market deposits	6,613,298	5,610,844
Savings deposits	436,340	398,824
Time deposits-under $100,000	181,676	203,422
Time deposits-$100,000 and over	552,149	564,496
Total deposits	25,236,869	23,502,355
Short-term borrowings	2,588	1,423,798
Long-term debt	719,326	706,051
Reserve for off-balance sheet credit commitments	25,873	24,837
Acceptances outstanding	1,661	7,859
Other liabilities	445,359	407,162

Total liabilities	26,431,676	26,072,062
Redeemable noncontrolling interest	39,840	41,112
Commitments and contingencies		
Shareholders equity		
Preferred stock, par value $1.00 per share; 5,000,000 shares authorized; 175,000 shares issued at September 30, 2013 and December 31, 2012	169,920	169,920
Common stock, par value $1.00 per share; 75,000,000 shares authorized; 54,400,047 and 53,885,886 shares issued at September 30, 2013 and December 31, 2012, respectively	54,400	53,886
Additional paid-in capital	519,760	490,339
Accumulated other comprehensive (loss) income	(10,355)	86,582
Retained earnings	1,879,240	1,738,957
Treasury shares, at cost - 485,081 and 669,454 shares at September 30, 2013 and December 31, 2012, respectively	(25,077)	(34,366)
Total common shareholders equity	2,417,968	2,335,398
Total shareholders equity	2,587,888	2,505,318
Total liabilities and shareholders equity	$ 29,059,404	$ 28,618,492

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 September 30, 2013	2012	For the nine months ended September 30, 2013	2012
Interest income				
Loans and leases	$ 186,049	$ 180,349	$ 530,398	$ 534,521
Securities	40,078	44,182	125,563	133,118
Due from banks - interest-bearing	403	163	674	429
Federal funds sold and securities purchased under resale agreements	1,563	74	4,253	181
Total interest income	228,093	224,768	660,888	668,249
Interest expense				
Deposits	2,927	3,316	8,856	10,914
Federal funds purchased and securities sold under repurchase agreements	1	9	401	42
Subordinated debt	6,129	6,125	18,352	14,494
Other long-term debt	4,765	5,396	14,467	15,685
Other short-term borrowings			549	
Total interest expense	13,822	14,846	42,625	41,135
Net interest income	214,271	209,922	618,263	627,114
Provision for credit losses on loans and leases, excluding covered loans		2,000		3,000
Provision for losses on covered loans	2,496	18,089	461	38,848
Net interest income after provision	211,775	189,833	617,802	585,266
Noninterest income				
Trust and investment fees	49,430	43,477	145,913	111,198
Brokerage and mutual fund fees	7,307	9,059	23,480	19,380
Cash management and deposit transaction charges	12,263	11,526	38,152	34,169
International services	10,932	9,819	31,462	28,621
FDIC loss sharing (expense) income, net	(20,992)	1,667	(51,821)	(3,493)
Gain on disposal of assets	3,092	3,199	5,155	8,401
Gain on sale of securities	5,788	856	12,624	1,026
Other	21,207	27,693	59,981	58,640
Impairment loss on securities:				
Total other-than-temporary impairment loss on securities	(144)	(1,510)	(326)	(1,688)
Less: Portion of loss recognized in other comprehensive income		1,471		1,471
Net impairment loss recognized in earnings	(144)	(39)	(326)	(217)
Total noninterest income	88,883	107,257	264,620	257,725
Noninterest expense				
Salaries and employee benefits	129,049	120,210	384,412	355,490
Net occupancy of premises	16,074	16,238	48,268	43,980
Legal and professional fees	10,374	11,757	35,149	34,996
Information services	9,876	8,660	28,450	25,348
Depreciation and amortization	7,827	8,324	24,248	23,765
Amortization of intangibles	1,932	1,932	5,795	5,336
Marketing and advertising	8,244	7,141	25,204	21,554
Office services and equipment	4,821	4,673	14,801	13,113
Other real estate owned	5,196	8,749	14,831	28,384

FDIC assessments	3,776	4,616	12,920	13,618
Other operating	12,195	15,586	38,055	37,538
Total noninterest expense	209,364	207,886	632,133	603,122
Income before income taxes	91,294	89,204	250,289	239,869
Income taxes	27,052	29,052	73,735	78,042
Net income	$ 64,242	$ 60,152	$ 176,554	$ 161,827
Less: Net income attributable to noncontrolling interest	609	372	1,657	1,024
Net income attributable to City National Corporation	$ 63,633	$ 59,780	$ 174,897	$ 160,803
Less: Dividends on preferred stock	2,407		7,219	
Net income available to common shareholders	$ 61,226	$ 59,780	$ 167,678	$ 160,803
Net income per common share, basic	$ 1.12	$ 1.10	$ 3.07	$ 2.98
Net income per common share, diluted	$ 1.10	$ 1.10	$ 3.04	$ 2.97
Weighted average common shares outstanding, basic	54,274	53,425	54,039	53,092
Weighted average common shares outstanding, diluted	54,820	53,711	54,464	53,376
Dividends per common share	$ 0.25	$ 0.25	$ 0.50	$ 0.75

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 September 30, 2013	2012	For the nine months ended September 30, 2013	2012
Net income	$ 64,242	$ 60,152	$ 176,554	$ 161,827
Other comprehensive (loss) income, net of tax:				
Securities available-for-sale:				
Net unrealized (losses) gains arising during the period	(13,573)	12,042	(90,215)	21,715
Reclassification adjustment for net gains included in net income	(3,367)	(28)	(6,666)	(267)
Non-credit related impairment loss		(856)		(856)
Net change on cash flow hedges (1)		(42)	(56)	(125)
Pension liability adjustment				1,085
Total other comprehensive (loss) income	(16,940)	11,116	(96,937)	21,552
Comprehensive income	$ 47,302	$ 71,268	$ 79,617	$ 183,379
Less: Comprehensive income attributable to noncontrolling interest	609	372	1,657	1,024
Comprehensive income attributable to City National Corporation	$ 46,693	$ 70,896	$ 77,960	$ 182,355

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

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Cash Flows From Operating Activities				
Net income	$	176,554	$	161,827
Adjustments to net income:				
Provision for credit losses on loans and leases, excluding covered loans				3,000
Provision for losses on covered loans		461		38,848
Amortization of intangibles		5,795		5,336
Depreciation and amortization		24,248		23,765
Share-based employee compensation expense		16,283		13,694
Deferred income tax (benefit) expense		(1,888)		926
Gain on disposal of assets		(5,155)		(8,401)
Gain on sale of securities		(12,624)		(1,026)
Impairment loss on securities		326		217
Other, net		24,759		(29,115)
Net change in:				
Trading securities		64,772		(2,187)
Other assets and other liabilities, net		81,814		75,109
Net cash provided by operating activities		375,345		281,993
Cash Flows From Investing Activities				
Purchase of securities available-for-sale		(1,775,702)		(2,997,503)
Sales of securities available-for-sale		1,835,775		6,216
Maturities and paydowns of securities available-for-sale		2,064,288		2,699,482
Purchase of securities held-to-maturity		(277,199)		(728,064)
Maturities and paydowns of securities held-to-maturity		23,826		20,124
Loan originations, net of principal collections		(1,436,714)		(779,081)
Net payments for premises and equipment		(43,415)		(23,039)
Net cash paid in acquisitions				(123,746)
Other investing activities, net		48,429		23,976
Net cash provided by (used in) investing activities		439,288		(1,901,635)
Cash Flows From Financing Activities				
Net increase in deposits		1,734,514		2,124,734
Net decrease in federal funds purchased		(1,214,200)		(50,000)
Issuance of long-term debt		35,289		159,986
Repayment of long-term debt		(231,382)		(252,221)
Proceeds from exercise of stock options		24,963		21,653
Tax benefit from exercise of stock options		3,749		2,959
Cash dividends paid		(34,355)		(40,029)
Other financing activities, net		(1,902)		(2,416)
Net cash provided by financing activities		316,676		1,964,666
Net increase in cash and cash equivalents		1,131,309		345,024
Cash and cash equivalents at beginning of year		415,405		244,814
Cash and cash equivalents at end of period	$	1,546,714	$	589,838
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the period for:				
Interest	$	56,100	$	47,903

Income taxes		11,478		53,783
Non-cash investing activities:				
Transfer of loans to other real estate owned	$	18,637	$	58,202
Transfer of SERP liability to equity				8,348
Assets acquired (liabilities assumed) in acquisitions:				
Loans and leases	$		$	318,301
Other borrowings				(320,856)

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, 2012	53,885,886	$	$ 53,886	$ 489,200	$ 72,372	$ 1,611,969	$ (82,578)	$ 2,144,849
Net income (1)						160,803		160,803
Other comprehensive income, net of tax					21,552			21,552
Issuance of shares under share-based compensation plans				(27,171)			46,698	19,527
Share-based employee compensation expense				12,825				12,825
Tax benefit from share-based compensation plans				953				953
Common stock dividends						(40,355)		(40,355)
Net change in deferred compensation plans				787			2	789
Change in redeemable noncontrolling interest				1,033				1,033
Other (2)				8,348				8,348
Balance, September 30, 2012	53,885,886	$	$ 53,886	$ 485,975	$ 93,924	$ 1,732,417	$ (35,878)	$ 2,330,324
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)						174,897		174,897
Other comprehensive loss, net of tax					(96,937)			(96,937)
Issuance of shares under share-based compensation plans	514,161		514	11,742			9,290	21,546
Share-based employee compensation expense				13,241				13,241
Tax benefit from share-based compensation plans				3,646				3,646
Dividends:								
Preferred						(7,219)		(7,219)
Common						(27,395)		(27,395)
Net change in deferred compensation plans				773			(1)	772
Change in redeemable noncontrolling interest				19				19
Balance, September 30, 2013	54,400,047	$ 169,920	$ 54,400	$ 519,760	$ (10,355)	$ 1,879,240	$ (25,077)	$ 2,587,888

(1) Net income excludes net income attributable to redeemable noncontrolling interest of $1,657 and $1,024 for the nine month periods ended September 30, 2013 and 2012, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets. See Note 18 of the Notes to the Unaudited Consolidated Financial Statements.

(2) Conversion of pension liability to equity due to SERP amendment. See Note 15 for additional information.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

City National Corporation (the Corporation) is the holding company for City National Bank (the Bank). The Bank delivers banking, trust and investment services through 77 offices in Southern California, the San Francisco Bay area, Nevada, New York City, Nashville, Tennessee and Atlanta, Georgia. As of September 30, 2013, the Corporation had five consolidated investment advisory affiliates and one unconsolidated subsidiary, Business Bancorp Capital Trust I. Because the Bank comprises substantially all of the business of the Corporation, references to the Company mean the Corporation and the Bank together. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

Consolidation

The consolidated financial statements of the Company include the accounts of the Corporation, its non-bank subsidiaries, the Bank and the Bank s wholly owned subsidiaries, after the elimination of all material intercompany transactions. It also includes noncontrolling interest, which is the portion of equity in a subsidiary not attributable to a parent. 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 17 for a more detailed discussion on VIEs.

Use of Estimates

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

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

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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, 2012.

The results for the 2013 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 2012 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, 2013. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2013.

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 nine months ended September 30, 2013:

• In October 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution* (ASU 2012-06). ASU 2012-06 clarifies existing guidance on the subsequent measurement of an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. Existing guidance specifies that an acquirer must record an indemnification asset at the same time as it recognizes the indemnified item in a business combination. The indemnification asset is initially and subsequently measured on the same basis as the indemnified item, subject to any contractual limitations on its amount or management s assessment of its collectability. Under ASU 2012-06, when there is a subsequent change in the cash flows expected to be collected on the indemnified asset, the reporting entity should subsequently measure the indemnification asset on the same basis as the underlying loans by taking into account the contractual limitation of the indemnification agreement. Any amortization of changes in value shall be limited to the lesser of the contractual term of the indemnification agreement and the remaining life of the indemnified assets. Adoption of ASU 2012-06 on January 1, 2013 did not have a significant impact on the Company s consolidated financial statements.

• In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* (ASU 2013-01). ASU 2013-01 clarifies that ordinary trade receivables and other receivables are not in the scope of ASU

2011-11, *Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities*. Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the Accounting Standards Codification (ASC) or subject to a master netting arrangement or similar agreement. The Company adopted ASU 2013-01 in its first quarter 2013 reporting. Refer to Note 13 for balance sheet offsetting disclosures.

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Note 1. Summary of Significant Accounting Policies (Continued)

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

- In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*. The new guidance permits the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes in addition to U.S. Government Treasury rates and LIBOR. The ASU became effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company periodically enters into interest-rate swap agreements to reduce cash flow variability on pools of floating rate loans. The swaps are tied to either the Prime rate or LIBOR consistent with the pricing index on the underlying loans. The Company does not use the Fed Funds rate for loan pricing and did not have interest rate swaps designated as hedging instruments as of September 30, 2013. Accordingly, adoption of the new guidance did not have an impact on the Company s consolidated financial statements.

The following is a summary of recently issued accounting pronouncements:

- In February 2013, the FASB issued 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. The ASU is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. Adoption of the new guidance is not expected to 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 an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, except as follows. 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 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, the unrecognized tax benefit should be presented in the statement of financial position as a liability and should not be combined with deferred tax assets. The ASU is effective for annual periods, and interim periods within those years, beginning after December 15, 2013. Adoption of the new guidance is not expected to have a significant impact on the Company s consolidated financial statements.

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Note 2. Business Combinations

Rochdale Investment Management

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

The Company recognized goodwill of approximately $86.5 million and a client contract intangible of $19.0 million related to the acquisition. The Company recognized a contingent consideration liability at its fair value of $46.7 million. The contingent consideration arrangements require the Company to pay additional cash consideration to Rochdale s former shareholders at certain points in time over the next six years if certain criteria, such as revenue growth and pre-tax margin, are met. The fair value of the contingent consideration was estimated using a probability-weighted discounted cash flow model. Although the acquisition agreement does not set a limit on the total payment, the Company estimates that the total consideration payment could be in the range of $32 million to $74 million, but will ultimately be determined based on actual future results. The contingent consideration liability is remeasured to fair value at each reporting date until its settlement.

First American Equipment Finance

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

Excluding the effects of acquisition accounting adjustments, the Company acquired approximately $343.0 million in assets and assumed $325.0 million in liabilities. The Company acquired lease receivables with a fair value of $318.3 million and assumed borrowings and nonrecourse debt with a fair value of $320.9 million. The Company recognized goodwill of approximately $68.4 million.

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Note 3. Fair Value Measurements

The following tables summarize assets and liabilities measured at fair value as of September 30, 2013 and December 31, 2012 by level in the fair value hierarchy:

(in thousands)	Balance as of September 30, 2013	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Measured on a Recurring Basis				
Assets				
Securities available-for-sale:				
U.S. Treasury	$ 35,425	$ 35,425	$	$
Federal agency - Debt	1,002,447		1,002,447	
Federal agency - MBS	197,173		197,173	
CMOs - Federal agency	4,742,584		4,742,584	
CMOs - Non-agency	43,312		43,312	
State and municipal	475,786		429,570	46,216
Other debt securities	392,356		376,984	15,372
Equity securities and mutual funds	6,047	6,047		
Trading securities	51,451	48,744	2,707	
Derivatives (1)	44,634	4,213	40,421	
Total assets at fair value	$ 6,991,215	$ 94,429	$ 6,835,198	$ 61,588
Liabilities				
Derivatives	$ 42,584	$ 3,577	$ 39,007	$
Contingent consideration liability	49,350			49,350
FDIC clawback liability	11,279			11,279
Other liabilities	919		919	
Total liabilities at fair value (2)	$ 104,132	$ 3,577	$ 39,926	$ 60,629
Redeemable noncontrolling interest	$ 39,840	$	$	$ 39,840
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Commercial (4)	$ 15	$	$	$ 15
Commercial real estate mortgages	1,214			1,214
Residential mortgages	1,442			1,442
Other real estate owned (5)	16,383			16,383
Private equity and alternative investments	919			919
Total assets at fair value	$ 19,973	$	$	$ 19,973

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

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

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

(4) Includes lease financing.

(5) Includes covered OREO.

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Note 3. Fair Value Measurements (Continued)

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

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

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

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

(4) Includes lease financing.

(5) Includes covered OREO.

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Note 3. Fair Value Measurements (Continued)

At September 30, 2013, $6.99 billion, or approximately 24 percent, of the Company s total assets were recorded at fair value on a recurring basis, compared with $9.39 billion, or 33 percent, at December 31, 2012. 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 September 30, 2013, $104.1 million of the Company s total liabilities were recorded at fair value using mostly Level 2 or Level 3 inputs, compared with $122.5 million at December 31, 2012. 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 nine months ended September 30, 2013. At September 30, 2013, $20.0 million of the Company s total assets were recorded at fair value on a nonrecurring basis, compared with $75.3 million at December 31, 2012. These assets represent less than one percent of total assets and were measured using Level 3 inputs.

Recurring Fair Value Measurements

Assets and liabilities for which fair value measurement is based on significant unobservable inputs are classified as Level 3 in the fair value hierarchy. The following table provides a reconciliation of the beginning and ending balances for Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2013 and 2012.

Level 3 Assets and Liabilities Measured on a Recurring Basis

	For the nine months ended September 30, 2013			For the nine months ended September 30, 2012		
(in thousands)	**Securities Available-for-Sale**	**Contingent Consideration Liability**	**FDIC Clawback Liability**	**Securities Available-for-Sale**	**Contingent Consideration Liability**	**FDIC Clawback Liability**
Balance, beginning of period	$ 65,187	$ (47,724)	$ (9,970)	$ 19,583	$	$ (8,103)
Total realized/unrealized gains (losses):						
Included in earnings			(1,309)			(1,811)
Included in other comprehensive income	(35)			1,770		
Additions					(45,768)	
Settlements	(3,655)			(3,152)		
Transfers into Level 3				47,165		
Other (1)	91	(1,626)		73	(515)	
Balance, end of period	$ 61,588	$ (49,350)	$ (11,279)	$ 65,439	$ (46,283)	$ (9,914)

(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. Refer to Note 18, *Noncontrolling Interest*, for a rollforward of activity for the nine months ended September 30, 2013 and 2012.

Level 3 assets measured at fair value on a recurring basis consist of municipal auction rate securities and collateralized debt obligation senior notes that are included in securities available-for-sale. At September 30, 2013, 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. At September 30, 2013, the collateralized debt obligation senior note was valued using the discounted cash flow method with the following unobservable inputs: (1) risk-adjusted discount rate consistent with similarly-rated securities, (2) prepayment rate of 2 percent, (3) default rate of 0.75 percent of performing collateral, and (4) 15 percent recovery rate with a 2-year lag.

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

There were no purchases, sales, or transfers out of Level 3 assets measured on a recurring basis during the nine months ended September 30, 2013 and 2012. Paydowns of $3.7 million and $3.2 million were received on Level 3 assets measured on a recurring basis for the nine months ended September 30, 2013 and 2012, respectively.

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Note 3. Fair Value Measurements (Continued)

Nonrecurring Fair Value Measurements

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

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

Information About Nonrecurring Level 3 Fair Value Measurements

(in thousands)	Fair Value at September 30, 2013	Valuation Method	Unobservable Inputs
Collateral dependent impaired loans	$ 2,671	Market	- Assumptions made in the appraisal process - Adjustments to external or internal appraised values (1) - Probability weighting of broker price opinions - Management assumptions regarding market trends or other relevant factors
Other real estate owned	$ 16,383	Market	- Assumptions made in the appraisal process - Adjustments to external or internal appraised values (1) - Probability weighting of broker price opinions - Management assumptions regarding market trends or other relevant factors
Private equity and alternative investments	$ 919	Cost Recovery	- Management s assumptions regarding recoverability of investment based on fund financial performance, market conditions and other relevant factors

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

on a case-by-case basis.

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

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Note 3. Fair Value Measurements (Continued)

For assets measured at fair value on a nonrecurring basis, the following table presents the total net (losses) gains, which include charge-offs, recoveries, specific reserves, OREO valuation write-downs and write-ups, gains and losses on sales of OREO, and impairment write-downs on private equity investments, recognized in the three and nine months ended September 30, 2013 and 2012:

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands)	**2013**	**2012**	**2013**	**2012**
Collateral dependent impaired loans:				
Commercial	$	$	$	$ (368)
Commercial real estate mortgages	(934)	306	(641)	(1,630)
Residential mortgages	(2)	(31)	(224)	(1,152)
Real estate construction		130		(6,623)
Home equity loans and lines of credit		16	116	(47)
Installment		(101)	(138)	(208)
Other real estate owned (1)	(364)	(4,147)	(5,075)	(16,312)
Private equity and alternative investments	(109)	(2,477)	(508)	(2,938)
Total net losses recognized	$ (1,409)	$ (6,304)	$ (6,470)	$ (29,278)

(1) Net losses on OREO includes $0.4 million and $5.0 million of net losses related to covered OREO for the three and nine months ended September 30, 2013, respectively, and $3.6 million and $14.7 million of net losses related to covered OREO for the three and nine months ended September 30, 2012. A significant portion of net losses on covered OREO is reimbursable by the FDIC.

Fair Value of Financial Instruments

A financial instrument is broadly defined as cash, evidence of an ownership interest in another entity, or a contract that imposes a contractual obligation on one entity and conveys a corresponding right to a second entity to require delivery or exchange of a financial instrument. Refer to Note 1, *Summary of Significant Accounting Policies,* in the Company s 2012 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.

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Note 3. Fair Value Measurements (Continued)

The following tables summarize the carrying amounts and estimated fair values of those financial instruments that are reported at amortized cost in the Company s consolidated balance sheets. The tables also provide information on the level in the fair value hierarchy for inputs used in 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.

			September 30, 2013		
	Carrying	Total	Fair Value Measurements Using		
(in millions)	Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	$ 301.1	$ 301.1	$ 301.1	$	$
Due from banks - interest bearing	1,045.6	1,045.6	1,045.6		
Securities purchased under resale agreements	200.0	197.0		197.0	
Securities held-to-maturity	1,649.5	1,608.1		1,608.1	
Loans and leases, net of allowance	16,270.2	16,719.8			16,719.8
Covered loans, net of allowance	754.2	802.5			802.5
FDIC indemnification asset	101.1	84.3			84.3
Investment in FHLB and FRB stock	71.8	71.8		71.8	
Financial Liabilities:					
Deposits	$ 25,236.9	$ 25,240.0	$	$ 24,503.0	$ 737.0
Other short-term borrowings	2.6	2.6			2.6
Long-term debt	719.3	778.2		693.6	84.6

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

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.

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Note 3. Fair Value Measurements (Continued)

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 FRB and FHLB stock is equal to the carrying amount.

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

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

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

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

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Note 4. Securities

At September 30, 2013, the Company had total securities of $8.60 billion, comprised of securities available-for-sale at fair value of $6.90 billion, securities held-to-maturity at amortized cost of $1.65 billion and trading securities at fair value of $51.5 million. At December 31, 2012, the Company had total securities of $10.72 billion, comprised of securities available-for-sale at fair value of $9.21 billion, securities held-to-maturity at amortized cost of $1.40 billion and trading securities at fair value of $115.1 million.

The 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 September 30, 2013 and December 31, 2012:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013				
Securities available-for-sale:				
U.S. Treasury	$ 35,400	$ 25	$	$ 35,425
Federal agency - Debt	1,007,019	1,078	(5,650)	1,002,447
Federal agency - MBS	192,345	7,054	(2,226)	197,173
CMOs - Federal agency	4,773,336	40,818	(71,570)	4,742,584
CMOs - Non-agency	44,484	213	(1,385)	43,312
State and municipal	466,633	10,490	(1,337)	475,786
Other debt securities	393,377	5,220	(6,241)	392,356
Total debt securities	6,912,594	64,898	(88,409)	6,889,083
Equity securities and mutual funds	337	5,710		6,047
Total securities available-for-sale	$ 6,912,931	$ 70,608	$ (88,409)	$ 6,895,130
Securities held-to-maturity (1):				
Federal agency - Debt	$ 140,020	$ 182	$ (4,305)	$ 135,897
Federal agency - MBS	359,952	1,187	(9,753)	351,386
CMOs - Federal agency	849,600	3,567	(18,158)	835,009
State and municipal	299,948	660	(14,826)	285,782
Total securities held-to-maturity	$ 1,649,520	$ 5,596	$ (47,042)	$ 1,608,074
December 31, 2012				
Securities available-for-sale:				
U.S. Treasury	$ 20,393	$ 7	$ (3)	$ 20,397
Federal agency - Debt	2,344,374	5,031	(203)	2,349,202
Federal agency - MBS	653,428	39,673	(69)	693,032
CMOs - Federal agency	5,233,126	91,165	(6,038)	5,318,253
CMOs - Non-agency	62,975	662	(2,124)	61,513
State and municipal	437,266	17,447	(239)	454,474
Other debt securities	305,340	7,945	(5,868)	307,417
Total debt securities	9,056,902	161,930	(14,544)	9,204,288
Equity securities and mutual funds	336	1,365		1,701
Total securities available-for-sale	$ 9,057,238	$ 163,295	$ (14,544)	$ 9,205,989
Securities held-to-maturity (1):				
Federal agency - Debt	$ 97,183	$ 4,032	$	$ 101,215
Federal agency - MBS	303,642	11,490	(182)	314,950

CMOs - Federal agency	745,980	28,973	(382)	774,571
State and municipal	251,598	5,122	(857)	255,863
Total securities held-to-maturity	$ 1,398,403	$ 49,617	$ (1,421)	$ 1,446,599

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

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Note 4. Securities (Continued)

Proceeds from sales of securities available-for-sale were $584.7 million and $1.84 billion for the three and nine months ended September 30, 2013, respectively, compared with $1.0 million and $6.2 million for the three and nine months ended September 30, 2012, respectively. There were no sales of securities held-to-maturity during the three and nine months ended September 30, 2013 and September 30, 2012. 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 September 30, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
Gross realized gains	$ 17,533	$ 1,315	$ 24,369	$ 1,851
Gross realized losses	(11,745)	(459)	(11,745)	(825)
Net realized gains	$ 5,788	$ 856	$ 12,624	$ 1,026

Interest income on securities for the three months ended September 30, 2013 and 2012 is comprised of: (i) taxable interest income of $35.5 million and $40.0 million, respectively (ii) nontaxable interest income of $4.5 million and $4.1 million, respectively, and (iii) dividend income of $19 thousand and $0.1 million, respectively. Interest income on securities for the nine months ended September 30, 2013 and 2012 is comprised of: (i) taxable interest income of $112.1 million and $120.8 million, respectively (ii) nontaxable interest income of $13.3 million and $12.0 million, respectively, and (iii) dividend income of $0.1 million and $0.3 million, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at September 30, 2013, 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	$ 12,078	$ 23,347	$	$	$ 35,425
Federal agency - Debt	317,377	625,652	59,418		1,002,447
Federal agency - MBS		68,967	128,206		197,173
CMOs - Federal agency	128,236	3,706,036	908,312		4,742,584
CMOs - Non-agency	111	9,218	33,983		43,312
State and municipal	39,865	355,575	72,650	7,696	475,786
Other	12,726	292,812	86,818		392,356
Total debt securities available-for-sale	$ 510,393	$ 5,081,607	$ 1,289,387	$ 7,696	$ 6,889,083
Amortized cost	$ 507,840	$ 5,082,693	$ 1,314,292	$ 7,769	$ 6,912,594
Securities held-to-maturity:					
Federal agency - Debt	$	$ 7,000	$ 60,022	$ 72,998	$ 140,020
Federal agency - MBS		14,646	340,827	4,479	359,952
CMOs - Federal agency		181,723	667,877		849,600
State and municipal	659	8,749	142,020	148,520	299,948
	$ 659	$ 212,118	$ 1,210,746	$ 225,997	$ 1,649,520

Total debt securities held-to-maturity at amortized cost

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Note 4. Securities (Continued)

Impairment Assessment

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

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

Securities Deemed to be Other-Than-Temporarily Impaired

The Company recorded impairment losses in earnings on securities available-for-sale of $0.1 million and $0.3 million for the three and nine months ended September 30, 2013, respectively. Impairment losses of $39 thousand and $0.2 million were recognized in earnings for the three and nine months ended September 30, 2012. There was no non-credit related other-than-temporary impairment recognized in AOCI on securities available-for-sale at September 30, 2013. The Company recognized $1.5 million of non-credit-related other-than-temporary impairment in AOCI on securities available-for-sale at September 30, 2012. No impairment losses were recognized in earnings or AOCI for securities held-to-maturity during the three and nine months ended September 30, 2013 and 2012.

The following table summarizes the changes in cumulative credit-related other-than-temporary impairment recognized in earnings for debt securities for the three and nine months ended September 30, 2013 and 2012. 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.

	For the three months ended September 30,	For the nine months ended September 30,

(in thousands)	2013	2012	2013	2012
Balance, beginning of period	$ 3,654	$ 17,366	$ 16,486	$ 17,531
Subsequent credit-related impairment	144	39	326	217
Reduction for securities sold or redeemed		(537)	(12,761)	(537)
Reduction for increase in expected cash flows on securities for which OTTI was previously recognized	(421)	(267)	(674)	(610)
Balance, end of period	$ 3,377	$ 16,601	$ 3,377	$ 16,601

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Note 4. Securities (Continued)

Non-Agency CMOs

The Company held $33.8 million of variable rate non-agency CMOs at September 30, 2013. The Company determined that one non-agency CMO with a fair value of $6.0 million was other-than-temporarily impaired at September 30, 2013. These CMOs have a fixed interest rate for an initial period after which they become variable-rate instruments with annual rate resets. For purposes of projecting future cash flows, the current fixed coupon was used through the reset date for each security. The prevailing LIBOR/Treasury forward curve as of the measurement date was used to project all future floating-rate cash flows based on the characteristics of each security. Other factors considered in the projection of future cash flows include the current level of subordination from other CMO classes, anticipated prepayment rates, cumulative defaults and loss given default. The Company recognized $0.1 million and $0.3 million of credit-related impairment losses in earnings on its investment in one variable rate non-agency CMO for the three and nine months ended September 30, 2013, respectively. Impairment losses of $39 thousand and $0.2 million were recognized in earnings on variable rate non-agency CMOs for the three and nine months ended September 30, 2012. No other-than-temporary impairment was recognized in AOCI on the impaired CMO security at September 30, 2013. The non-credit portion of other-than-temporarily impairment recognized at September 30, 2012 was attributed to external market conditions, primarily the lack of liquidity in these securities, resulting in an increase in interest rate spreads for these securities. The Company also holds $9.5 million in fixed rate non-agency CMOs at September 30, 2013, none of which have experienced any other-than-temporary impairment.

The following table provides a summary of the gross unrealized losses and fair value of investment securities that are not deemed to be other-than-temporarily impaired aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of September 30, 2013 and December 31, 2012. The table also includes investment securities that had both a credit-related impairment recognized in earnings and a non-credit-related impairment recognized in AOCI.

	Less than 12 months		12 months or greater		Total	
(in thousands)	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
September 30, 2013						
Securities available-for-sale:						
Federal agency - Debt	$ 611,954	$ 5,650	$	$	$ 611,954	$ 5,650
Federal agency - MBS (1)	45,176	2,226	45		45,221	2,226
CMOs - Federal agency	2,774,796	69,757	96,544	1,813	2,871,340	71,570
CMOs - Non-agency	14,620	517	8,432	868	23,052	1,385
State and municipal	90,545	328	46,216	1,009	136,761	1,337
Other debt securities	118,698	1,231	15,372	5,010	134,070	6,241
Total securities available-for-sale	$ 3,655,789	$ 79,709	$ 166,609	$ 8,700	$ 3,822,398	$ 88,409
Securities held-to-maturity:						
Federal agency - Debt	$ 128,715	$ 4,305	$	$	$ 128,715	$ 4,305
Federal agency - MBS	231,160	9,753			231,160	9,753
CMOs - Federal agency	583,595	18,158			583,595	18,158
State and municipal	229,562	14,826			229,562	14,826
Total securities held-to-maturity	$ 1,173,032	$ 47,042	$	$	$ 1,173,032	$ 47,042

(1) The estimated gross unrealized loss for federal agency MBS securities in a continuous unrealized loss position of 12 months or greater was an insignificant amount as of September 30, 2013.

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Note 4. Securities (Continued)

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

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

At September 30, 2013, the Company had $3.82 billion of securities available-for-sale and $1.17 billion of securities held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position totaled 688 and included 32 federal agency debt securities, 26 federal agency MBS securities, 161 federal agency CMOs, 6 non-agency CMOs, 454 state and municipal securities and 9 other debt securities. The increase in unrealized losses on debt securities from year-end 2012 is attributed to higher market interest rates in the current period.

Other debt securities include the Company s investment in one highly-rated corporate debt and collateralized bond obligation backed by trust preferred securities (CDOs) issued by a geographically diverse pool of small- and medium-sized financial institutions. The CDO held in securities available-for-sale at September 30, 2013 is the most senior tranche of the issue. Trading activity for the type of CDO held by the Company has been limited since 2008. Accordingly, the fair value of this security was determined using an internal pricing model that incorporates assumptions about discount rates in an illiquid market, projected cash flows and collateral performance. The CDO had a $5.0 million net unrealized loss at September 30, 2013, which the Company attributes to the illiquid credit markets. The CDO has collateral that well exceeds the outstanding debt. The security valuation reflects the current and prospective performance of the issuers whose debt is contained in the asset pools. The Company expects to receive all remaining contractual principal and interest payments due on its CDO. Additionally, the Company does not intend to sell this security, and it is not more likely than not that it will be required to sell the security before it recovers the cost basis of its investment.

At December 31, 2012, the Company had $2.00 billion of securities available-for-sale in an unrealized loss position, consisting of $1.98 billion of temporarily impaired securities and $16.2 million of securities that had non-credit related impairment recognized in AOCI. At December 31,

2012, the Company had $156.9 million of securities held-to-maturity in an unrealized loss position. At December 31, 2012, the Company had 231 debt securities available-for-sale and held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position include 2 U.S. Treasury note, 8 federal agency debt securities, 7 federal agency MBS, 53 federal agency CMOs, 4 non-agency CMOs, 152 state and municipal securities and 5 other debt securities.

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Note 5. Other Investments

FHLB and FRB Stock

The Company s investment in stock issued by the FHLB and FRB totaled $71.8 million and $90.0 million at September 30, 2013 and December 31, 2012, 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

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 $36.3 million at September 30, 2013 and $36.1 million at December 31, 2012. A summary of investments by fund type is provided below:

(in thousands) Fund Type	September 30, 2013	December 31, 2012
Private equity and venture capital	$ 20,862	$ 20,693
Real estate	8,108	9,223
Hedge	2,733	2,866
Other	4,567	3,309
Total	$ 36,270	$ 36,091

Management reviews these investments quarterly for impairment. The impairment assessment includes a review of the most recent financial statements and investment reports for each fund and discussions with fund management. An impairment loss is recognized if it is deemed probable that the Company will not recover the cost of an investment. The impairment loss is recognized in Other noninterest income in the consolidated statements of income. The new cost basis of the investment is not adjusted for subsequent recoveries in value. The Company recognized impairment losses of $0.1 million and $0.5 million on other investments during the three and nine months ended September 30, 2013, respectively. The Company recognized impairment losses totaling $2.5 million and $2.9 million on its other investments during the three and nine months ended September 30, 2012, respectively.

The table below provides information as of September 30, 2013 on private equity and alternative investments measured at fair value on a nonrecurring basis due to the recognition of impairment:

(in thousands) Fund Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period

Private equity and venture capital (1)	$ 919	$ 179	None (2)	N/A

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

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

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

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

Loans and Leases

(in thousands)	September 30, 2013	December 31, 2012
Commercial	$ 7,126,158	$ 6,211,353
Commercial real estate mortgages	3,077,183	2,739,284
Residential mortgages	4,418,231	3,962,205
Real estate construction	380,489	313,190
Home equity loans and lines of credit	681,879	711,750
Installment	152,107	142,793
Lease financing	730,086	737,720
Loans and leases, excluding covered loans	16,566,133	14,818,295
Less: Allowance for loan and lease losses	(295,947)	(277,888)
Loans and leases, excluding covered loans, net	16,270,186	14,540,407
Covered loans	780,072	1,031,004
Less: Allowance for loan losses	(25,882)	(44,781)
Covered loans, net	754,190	986,223
Total loans and leases.	$ 17,346,205	$ 15,849,299
Total loans and leases, net	$ 17,024,376	$ 15,526,630

The loan amounts above include unamortized fees, net of deferred costs, of $2.4 million and $5.9 million as of September 30, 2013 and December 31, 2012, 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 September 30, 2013, California represented 77 percent of total loans outstanding and New York and Nevada represented 8 percent and 2 percent, respectively. The remaining 13 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.

Within the Company s covered loan portfolio at September 30, 2013, the five states with the largest concentration were California (36 percent), Texas (11 percent), Nevada (8 percent), Arizona (5 percent) and Ohio (5 percent). The remaining 35 percent of total covered loans outstanding represented other states.

Covered Loans

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements. Covered loans were $780.1 million as of September 30, 2013 and $1.03 billion as of December 31, 2012. Covered loans, net of allowance for loan losses, were $754.2 million at September 30, 2013 and $986.2 million at December 31, 2012.

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

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

(in thousands)	September 30, 2013	December 31, 2012
Commercial	$ 10,015	$ 10,561
Commercial real estate mortgages	719,207	931,758
Residential mortgages	5,030	5,652
Real estate construction	41,625	78,554
Home equity loans and lines of credit	3,672	3,790
Installment	523	689
Covered loans	780,072	1,031,004
Less: Allowance for loan losses	(25,882)	(44,781)
Covered loans, net	$ 754,190	$ 986,223

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
Carrying value of covered loans as of:					
September 30, 2013	$ 680,427	$ 45,123	$ 25,948	$ 28,574	$ 780,072
December 31, 2012	$ 893,031	$ 70,240	$ 34,803	$ 32,930	$ 1,031,004
Expiration date of FDIC loss sharing:					
Commercial (1)	12/31/2016	6/30/2015	6/30/2015	6/30/2016	
Residential	12/31/2019	5/30/2020	5/30/2020	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	5/30/2020	5/30/2020	4/30/2021	

(1) The Company is subject to sharing 80% of its recoveries with the FDIC up to the termination dates of the commercial loss-sharing agreements.

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.

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

The excess of cash flows expected to be collected over the carrying value of the underlying acquired impaired loans is referred to as the accretable yield. This amount is not reported in the consolidated balance sheets, but is accreted into interest income 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 nine months ended September 30, 2013 and 2012:

	For the nine months ended September 30,			
(in thousands)	**2013**		**2012**	
Balance, beginning of period	$	295,813	$	436,374
Accretion		(48,424)		(62,189)
Reclassifications from (to) nonaccretable yield		26,990		(4,042)
Disposals and other		(41,930)		(51,854)
Balance, end of period	$	232,449	$	318,289

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 2013 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 FDIC indemnification asset from all FDIC-assisted acquisitions was $101.1 million at September 30, 2013 and $150.0 million at December 31, 2012.

Credit Quality on Loans and Leases, Excluding Covered Loans

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

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

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

The allowance for loan and lease losses is decreased by the amount of charge-offs and increased by the amount of recoveries. Generally, commercial, commercial real estate and real estate construction loans are charged off 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.

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

The following is a summary of activity in the allowance for loan and lease losses and period-end recorded investment balances of loans evaluated for impairment, excluding covered loans, for the three and nine months ended September 30, 2013 and 2012. Activity is provided by loan portfolio segment which is consistent with the Company s methodology for determining the allowance for loan and lease losses.

(in thousands)	Commercial (1)	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Home Equity Loans and Lines of Credit	Installment	Unallocated	Total
Three months ended September 30, 2013								
Allowance for loan and lease losses:								
Beginning balance	$ 116,619	$ 53,339	$ 8,004	$ 8,335	$ 5,400	$ 1,355	$ 96,862	$ 289,914
Provision (reduction) for credit losses (2)	(14,173)	(2,829)	5,070	(1,589)	3,092	317	9,363	(749)
Charge-offs	(488)	(1,270)			(225)	(18)		(2,001)
Recoveries	4,863	686	40	2,945	31	218		8,783
Net recoveries (charge-offs)	4,375	(584)	40	2,945	(194)	200		6,782
Ending balance	$ 106,821	$ 49,926	$ 13,114	$ 9,691	$ 8,298	$ 1,872	$ 106,225	$ 295,947
Nine months ended September 30, 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
Provision (reduction) for credit losses (2)	(7,313)	572	2,547	(10,386)	946	(854)	13,452	(1,036)
Charge-offs	(4,719)	(1,315)	(106)	(100)	(500)	(370)		(7,110)
Recoveries	14,122	1,768	115	8,393	569	1,238		26,205
Net recoveries (charge-offs)	9,403	453	9	8,293	69	868		19,095
Ending balance	$ 106,821	$ 49,926	$ 13,114	$ 9,691	$ 8,298	$ 1,872	$ 106,225	$ 295,947
Ending balance of allowance:								
Individually evaluated for impairment	$ 344	$ 602	$ 232	$	$	$	$	$ 1,178
Collectively evaluated for impairment	106,477	49,324	12,882	9,691	8,298	1,872	106,225	294,769
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases, excluding covered loans	$ 7,856,244	$ 3,077,183	$ 4,418,231	$ 380,489	$ 681,879	$ 152,107	$	$ 16,566,133
Individually evaluated for impairment	32,727	38,546	6,767	30,190	2,350			110,580
Collectively evaluated for impairment	7,823,517	3,038,637	4,411,464	350,299	679,529	152,107		16,455,553

(1) Includes lease financing loans.

(2) Provision for credit losses in the allowance rollforward for the three months ended September 30, 2013 includes total transfers to the reserve for off-balance sheet credit commitments of $0.7 million. Provision for credit losses in the allowance rollforward for the nine months ended September 30, 2013 includes total transfers to the reserve for off-balance sheet credit commitments of $1.0 million. There was no other provision for credit losses recognized for the three and nine months ended September 30, 2013.

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

(in thousands)	Commercial (1)	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Home Equity Loans and Lines of Credit	Installment	Unallocated	Total
Three months ended September 30, 2012								
Allowance for loan and lease losses:								
Beginning balance	$ 93,981	$ 49,715	$ 12,490	$ 14,810	$ 7,656	$ 1,774	$ 89,108	$ 269,534
Provision (reduction) for credit losses (2)	6,333	(1,298)	1,327	(3,898)	47	(314)	(1,106)	1,091
Charge-offs	(12,163)	(444)	(1,030)	(310)	(43)	(134)		(14,124)
Recoveries	7,227	203	495	3,415	11	588		11,939
Net (charge-offs) recoveries	(4,936)	(241)	(535)	3,105	(32)	454		(2,185)
Ending balance	$ 95,378	$ 48,176	$ 13,282	$ 14,017	$ 7,671	$ 1,914	$ 88,002	$ 268,440
Nine months ended September 30, 2012								
Allowance for loan and lease losses:								
Beginning balance	$ 83,514	$ 48,451	$ 14,122	$ 20,155	$ 8,077	$ 1,972	$ 86,266	$ 262,557
Provision (reduction) for credit losses (2)	3,425	(481)	732	(4,508)	588	(655)	1,736	837
Charge-offs	(22,382)	(1,318)	(2,333)	(9,769)	(1,077)	(959)		(37,838)
Recoveries	30,821	1,524	761	8,139	83	1,556		42,884
Net (charge-offs) recoveries	8,439	206	(1,572)	(1,630)	(994)	597		5,046
Ending balance	$ 95,378	$ 48,176	$ 13,282	$ 14,017	$ 7,671	$ 1,914	$ 88,002	$ 268,440
Ending balance of allowance:								
Individually evaluated for impairment	$ 1,167	$ 1,874	$ 185	$ 1,467	$ 138	$	$	$ 4,831
Collectively evaluated for impairment	94,211	46,302	13,097	12,550	7,533	1,914	88,002	263,609
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases, excluding covered loans	$ 6,264,562	$ 2,436,218	$ 3,897,690	$ 269,583	$ 718,966	$ 137,632	$	$ 13,724,651
Individually evaluated for impairment	34,731	58,217	11,342	56,582	4,496	449		165,817
Collectively evaluated for impairment	6,229,831	2,378,001	3,886,348	213,001	714,470	137,183		13,558,834

(1) Includes lease financing loans.

(2) Provision for credit losses in the allowance rollforward for the three months ended September 30, 2012 includes total provision expense of $2.0 million, net of total transfers to the reserve for off-balance sheet credit commitments of $0.9 million. Provision for credit losses for the nine months ended September 30, 2012 includes total provision expense of $3.0 million, net of total transfers to the reserve for off-balance sheet credit commitments of $2.2 million.

Off-balance sheet credit exposures include loan commitments and letters of credit. The following table provides a summary of activity in the reserve for off-balance sheet credit commitments for the three and nine months ended September 30, 2013 and 2012:

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands)	**2013**	**2012**	**2013**	**2012**
Balance, beginning of period	$ 25,124	$ 24,351	$ 24,837	$ 23,097
Transfers from allowance for loan and lease losses	749	909	1,036	2,163
Balance, end of period	$ 25,873	$ 25,260	$ 25,873	$ 25,260

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

Impaired Loans and Leases

Information on impaired loans, excluding covered loans, at September 30, 2013, December 31, 2012 and September 30, 2012 is provided in the following tables:

				For the three months ended September 30, 2013		For the nine months ended September 30, 2013	
(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
September 30, 2013							
With no related allowance recorded:							
Commercial	$ 25,233	$ 25,488	$	$ 26,255	$ 593	$ 22,584	$ 1,440
Commercial real estate mortgages	33,133	37,754		29,977	440	33,060	1,102
Residential mortgages:							
Fixed	2,031	2,155		2,019	33	2,860	75
Variable	3,062	3,418		3,670	47	4,062	116
Total residential mortgages	5,093	5,573		5,689	80	6,922	191
Real estate construction:							
Construction	16,259	21,064		16,262	233	17,904	791
Land	13,931	27,092		14,056	224	16,506	511
Total real estate construction	30,190	48,156		30,318	457	34,410	1,302
Home equity loans and lines of credit	2,350	3,375		2,803	47	2,827	81
Installment:							
Consumer						112	
Total installment						112	
Total with no related allowance	$ 95,999	$ 120,346	$	$ 95,042	$ 1,617	$ 99,915	$ 4,116
With an allowance recorded:							
Commercial	$ 7,494	$ 9,168	$ 344	$ 7,567	$ 156	$ 7,556	$ 513
Commercial real estate mortgages	5,413	5,810	602	10,262	45	11,018	361
Residential mortgages:							
Fixed						116	
Variable	1,674	1,688	232	1,684	14	842	55
Total residential mortgages	1,674	1,688	232	1,684	14	958	55
Real estate construction:							
Land						3,213	213
Total real estate construction						3,213	213
Home equity loans and lines of credit						225	
Total with an allowance	$ 14,581	$ 16,666	$ 1,178	$ 19,513	$ 215	$ 22,970	$ 1,142
Total impaired loans by type:							
Commercial	$ 32,727	$ 34,656	$ 344	$ 33,822	$ 749	$ 30,140	$ 1,953
Commercial real estate mortgages	38,546	43,564	602	40,239	485	44,078	1,463
Residential mortgages	6,767	7,261	232	7,373	94	7,880	246

Real estate construction	30,190	48,156		30,318	457	37,623	1,515
Home equity loans and lines of credit	2,350	3,375		2,803	47	3,052	81
Installment						112	
Total impaired loans	$ 110,580	$ 137,012	$ 1,178	$ 114,555	$ 1,832	$ 122,885	$ 5,258

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

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
December 31, 2012			
With no related allowance recorded:			
Commercial	$ 18,761	$ 24,135	$
Commercial real estate mortgages	42,882	49,110	
Residential mortgages:			
Fixed	3,482	3,757	
Variable	4,865	5,437	
Total residential mortgages	8,347	9,194	
Real estate construction:			
Construction	19,762	33,267	
Land	25,748	41,016	
Total real estate construction	45,510	74,283	
Home equity loans and lines of credit	3,562	4,660	
Installment:			
Consumer	449	927	
Total installment	449	927	
Total with no related allowance	$ 119,511	$ 162,309	$
With an allowance recorded:			
Commercial	$ 7,516	$ 8,038	$ 952
Commercial real estate mortgages	10,203	10,783	1,326
Residential mortgages:			
Fixed	463	507	9
Total residential mortgages	463	507	9
Home equity loans and lines of credit	899	965	116
Total with an allowance	$ 19,081	$ 20,293	$ 2,403
Total impaired loans by type:			
Commercial	$ 26,277	$ 32,173	$ 952
Commercial real estate mortgages	53,085	59,893	1,326
Residential mortgages	8,810	9,701	9
Real estate construction	45,510	74,283	
Home equity loans and lines of credit	4,461	5,625	116
Installment	449	927	
Total impaired loans	$ 138,592	$ 182,602	$ 2,403

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

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	For the three months ended September 30, 2012 Average Recorded Investment	For the three months ended September 30, 2012 Interest Income Recognized	For the nine months ended September 30, 2012 Average Recorded Investment	For the nine months ended September 30, 2012 Interest Income Recognized
September 30, 2012							
With no related allowance recorded:							
Commercial	$ 28,575	$ 39,624	$	$ 30,476	$	$ 24,732	$
Commercial real estate mortgages	40,825	46,081		34,597	34	25,767	158
Residential mortgages:							
Fixed	4,199	4,613		3,014		3,047	
Variable	3,528	3,968		4,893	9	5,010	48
Total residential mortgages	7,727	8,581		7,907	9	8,057	48
Real estate construction:							
Construction	29,446	42,870		34,137	245	29,189	487
Land	19,038	23,606		18,987	35	22,763	35
Total real estate construction	48,484	66,476		53,124	280	51,952	522
Home equity loans and lines of credit	3,297	4,370		3,252		4,470	
Installment:							
Consumer	449	927		500		552	
Total installment	449	927		500		552	
Lease financing						7	
Total with no related allowance	$ 129,357	$ 166,059	$	$ 129,856	$ 323	$ 115,537	$ 728
With an allowance recorded:							
Commercial	$ 6,156	$ 6,922	$ 1,167	$ 8,461	$	$ 11,286	$
Commercial real estate mortgages	17,392	18,962	1,874	17,257		13,406	
Residential mortgages:							
Fixed	2,229	2,336	181	2,260		1,844	
Variable	1,386	1,476	4	2,321	4	1,879	4
Total residential mortgages	3,615	3,812	185	4,581	4	3,723	4
Real estate construction:							
Land	8,098	18,362	1,467	8,432		14,700	
Total real estate construction	8,098	18,362	1,467	8,432		14,700	
Home equity loans and lines of credit	1,199	1,406	138	1,213		1,166	
Total with an allowance	$ 36,460	$ 49,464	$ 4,831	$ 39,944	$ 4	$ 44,281	$ 4
Total impaired loans by type:							
Commercial	$ 34,731	$ 46,546	$ 1,167	$ 38,937	$	$ 36,018	$
Commercial real estate mortgages	58,217	65,043	1,874	51,854	34	39,173	158
Residential mortgages	11,342	12,393	185	12,488	13	11,780	52
Real estate construction	56,582	84,838	1,467	61,556	280	66,652	522
Home equity loans and lines of credit	4,496	5,776	138	4,465		5,636	
Installment	449	927		500		552	
Lease financing						7	
Total impaired loans	$ 165,817	$ 215,523	$ 4,831	$ 169,800	$ 327	$ 159,818	$ 732

Effective July 1, 2012, the Company increased the outstanding loan amount under which nonperforming loans are individually evaluated for impairment from $500,000 or greater to $1 million or greater. For borrowers with multiple loans totaling $1 million or more, this threshold is applied at the total relationship level. Loans under $1 million will be measured for impairment using historical loss factors. Loans under $1 million that were previously reported as impaired at June 30, 2012 will continue to be reported as impaired until the collection of principal and interest is no longer in doubt, or the loans are paid or charged-off. At September 30, 2013, impaired loans included $6.1 million of loans previously reported as impaired that are less than $1 million.

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

Impaired loans at September 30, 2013 and December 31, 2012 included $52.5 million and $48.8 million, respectively, of restructured loans that are on accrual status. With the exception of restructured loans on accrual status and a limited number of loans on cash basis nonaccrual for which the full collection of principal and interest is expected, interest income is not recognized on impaired loans until the principal balance of these loans is paid off.

Troubled Debt Restructured Loans

The following table provides a summary of loans modified in a troubled debt restructuring during the three months ended September 30, 2013 and 2012:

(in thousands)	Number of Contracts	Pre-Modification Outstanding Principal	Period-End Outstanding Principal	Financial Effects (1)
Three months ended September 30, 2013				
Commercial	2	$ 7,575	$ 7,486	$ 344
Total troubled debt restructured loans	2	$ 7,575	$ 7,486	$ 344
Three months ended September 30, 2012				
Commercial	6	$ 1,624	$ 1,538	$ 10,528
Residential mortgages:				
Fixed	3	1,578	1,078	485
Real estate construction:				
Land	1	8,420	8,098	264
Home equity loans and lines of credit	1	257	149	
Total troubled debt restructured loans	11	$ 11,879	$ 10,863	$ 11,277

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

The following table provides a summary of loans modified in a troubled debt restructuring during the nine months ended September 30, 2013 and 2012:

(in thousands)	Number of Contracts	Pre-Modification Outstanding Principal	Period-End Outstanding Principal	Financial Effects (1)
Nine months ended September 30, 2013				
Commercial	12	$ 16,258	$ 13,624	$ 344

Commercial real estate mortgages	1		547		533		
Home equity loans and lines of credit	1		345				
Total troubled debt restructured loans	14	$	17,150	$	14,157	$	344
Nine months ended September 30, 2012							
Commercial	15	$	36,785	$	23,219	$	10,528
Commercial real estate mortgages	2		15,832		16,353		
Residential mortgages:							
Fixed	4		2,233		1,078		485
Real estate construction:							
Construction	3		14,857		14,226		
Land	1		8,420		8,098		264
Total real estate construction	4		23,277		22,324		264
Home equity loans and lines of credit	1		257		149		
Total troubled debt restructured loans	26	$	78,384	$	63,123	$	11,277

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

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

The following tables provide a summary of troubled debt restructured (TDR) loans that subsequently defaulted during the three and nine months ended September 30, 2013 and 2012, 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.

	For three months ended September 30, 2013			For nine months ended September 30, 2013		
(in thousands)	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve
Commercial		$	$	4	$ 896	$
Real estate construction:						
Land				1	7,244	
Home equity loans and lines of credit				1	139	
Total loans that subsequently defaulted		$	$	6	$ 8,279	$

	For three months ended September 30, 2012			For nine months ended September 30, 2012		
(in thousands)	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve
Commercial	1	$ 688	$	5	$ 4,581	$ 277
Real estate construction:						
Land				2	1,372	
Total loans that subsequently defaulted	1	$ 688	$	7	$ 5,953	$ 277

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 $7.6 million and $17.2 million were modified in troubled debt restructurings during the three and nine months ended September 30, 2013, respectively. Loans with pre-modification outstanding balances totaling $11.9 million and $78.4 million were modified in troubled debt restructurings during the three and nine months ended September 30, 2012, respectively. The concessions granted in the restructurings completed in 2013 largely consisted of maturity extensions and interest rate modifications.

The unpaid principal balance of TDR loans was $69.3 million, before specific reserves of $0.9 million, at September 30, 2013 and $94.9 million, before specific reserves of $1.7 million, at December 31, 2012. The net decrease in TDR loans from the prior year-end was primarily attributable to payments received on existing TDR loans and to the removal of $15.3 million of loans that were restructured in an A/B note structure in 2012 that are no longer reported as TDRs. These decreases were partially offset by the addition of $17.2 million of loans restructured during the first nine months of 2013. Loans restructured in an A/B note restructuring are not reported as TDR loans in years after the restructuring if the restructuring agreement specifies an interest rate equal to or greater than the rate the lender was willing to accept at the time of restructuring for a new loan with comparable risk, and the loan is performing based on the terms in the restructuring agreement. In an A/B restructuring, the original note is separated into two notes where the A note represents the portion of the original loan that is expected to be fully paid, and the B note is the portion of the loan that is expected to be uncollectible. The B note is charged-off at the time of restructuring. Loans modified in troubled debt restructurings are impaired loans at the time of restructuring and subject to the same measurement criteria as all other impaired loans.

During the nine months ended September 30, 2013, four commercial loans, one real estate construction loan and one equity line of credit that had been restructured within the preceding 12 months were not performing in accordance with their modified terms. The defaults were primarily due to missed or late payments. All other TDR loans were performing in accordance with their restructured terms at September 30, 2013. As of September 30, 2013, commitments to lend additional funds on restructured loans totaled $1.3 million.

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

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 September 30, 2013 and December 31, 2012 based upon the length of time the loans have been past due:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
September 30, 2013							
Commercial	$ 8,052	$ 964	$ 3	$ 10,073	$ 19,092	$ 7,107,066	$ 7,126,158
Commercial real estate mortgages	2,631			19,020	21,651	3,055,532	3,077,183
Residential mortgages:							
Fixed		1,238	379	3,901	5,518	1,457,866	1,463,384
Variable		2,375		5,773	8,148	2,946,699	2,954,847
Total residential mortgages		3,613	379	9,674	13,666	4,404,565	4,418,231
Real estate construction:							
Construction				11,553	11,553	339,138	350,691
Land				13,918	13,918	15,880	29,798
Total real estate construction				25,471	25,471	355,018	380,489
Home equity loans and lines of credit	274			5,289	5,563	676,316	681,879
Installment:							
Commercial						379	379
Consumer	24			21	45	151,683	151,728
Total installment	24			21	45	152,062	152,107
Lease financing		12	1	54	67	730,019	730,086
Total	$ 10,981	$ 4,589	$ 383	$ 69,602	$ 85,555	$ 16,480,578	$ 16,566,133
December 31, 2012							
Commercial	$ 6,207	$ 4,219	$ 602	$ 9,087	$ 20,115	$ 6,191,238	$ 6,211,353
Commercial real estate mortgages	16,968	3,249		33,198	53,415	2,685,869	2,739,284
Residential mortgages:							
Fixed		1,969	379	4,902	7,250	1,458,224	1,465,474
Variable				4,701	4,701	2,492,030	2,496,731
Total residential mortgages		1,969	379	9,603	11,951	3,950,254	3,962,205
Real estate construction:							
Construction				15,067	15,067	239,740	254,807
Land		859		25,815	26,674	31,709	58,383
Total real estate construction		859		40,882	41,741	271,449	313,190
Home equity loans and lines of credit	3,407	480		6,424	10,311	701,439	711,750
Installment:							
Commercial						437	437
Consumer	58	35		473	566	141,790	142,356
Total installment	58	35		473	566	142,227	142,793
Lease financing	2,633	2		120	2,755	734,965	737,720

Total	$ 29,273	$ 10,813	$ 981	$ 99,787	$ 140,854	$ 14,677,441	$ 14,818,295

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Note 6. 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 September 30, 2013 and December 31, 2012. 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.

	September 30, 2013			December 31, 2012		
(in thousands)	**Nonclassified**	**Classified**	**Total**	**Nonclassified**	**Classified**	**Total**
Commercial	$ 7,011,906	$ 114,252	$ 7,126,158	$ 6,073,459	$ 137,894	$ 6,211,353
Commercial real estate mortgages	2,961,319	115,864	3,077,183	2,597,863	141,421	2,739,284
Residential mortgages:						
Fixed	1,443,459	19,925	1,463,384	1,449,270	16,204	1,465,474
Variable	2,931,433	23,414	2,954,847	2,479,449	17,282	2,496,731
Total residential mortgages	4,374,892	43,339	4,418,231	3,928,719	33,486	3,962,205
Real estate construction:						
Construction	324,908	25,783	350,691	225,577	29,230	254,807
Land	15,589	14,209	29,798	28,710	29,673	58,383
Total real estate construction	340,497	39,992	380,489	254,287	58,903	313,190
Home equity loans and lines of credit	653,349	28,530	681,879	685,011	26,739	711,750
Installment:						
Commercial	379		379	437		437
Consumer	151,370	358	151,728	141,662	694	142,356
Total installment	151,749	358	152,107	142,099	694	142,793
Lease financing	727,500	2,586	730,086	733,803	3,917	737,720
Total	$ 16,221,212	$ 344,921	$ 16,566,133	$ 14,415,241	$ 403,054	$ 14,818,295

Credit Quality on Covered Loans

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

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands)	**2013**	**2012**	**2013**	**2012**
Balance, beginning of period	$ 24,414	$ 43,147	$ 44,781	$ 64,565
Provision for losses	2,496	18,089	461	38,848
Reduction in allowance due to loan removals	(1,028)	(16,258)	(19,360)	(58,435)

Balance, end of period	$ 25,882	$ 44,978	$ 25,882	$ 44,978

The allowance for losses on covered loans was $25.9 million, $44.8 million and $45.0 million as of September 30, 2013, December 31, 2012 and September 30, 2012, respectively. The Company recorded provision expense of $2.5 million and $0.5 million on covered loans during the three and nine months ended September 30, 2013, respectively. Provision expense was $18.1 million and $38.8 million for the three and nine months ended September 30, 2012, 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

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

performance data since the acquisition of covered loans. The allowance for losses on covered loans is reduced for any loan removals, which occur when a loan has been fully paid off, fully charged off, sold or transferred to OREO.

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 September 30, 2013 and December 31, 2012.

At September 30, 2013, covered loans that were 30 to 89 days delinquent totaled $6.4 million and covered loans that were 90 days or more past due on accrual status totaled $63.1 million. At December 31, 2012, covered loans that were 30 to 89 days delinquent totaled $43.4 million and covered loans that were 90 days or more past due on accrual status totaled $112.4 million.

Note 7. Other Real Estate Owned

The following table provides a summary of OREO activity for the three months ended September 30, 2013 and 2012:

	For the three months ended September 30, 2013			For the three months ended September 30, 2012		
(in thousands)	Non-Covered OREO	Covered OREO	Total	Non-Covered OREO	Covered OREO	Total
Balance, beginning of period	$ 19,676	$ 41,801	$ 61,477	$ 34,667	$ 82,834	$ 117,501
Additions		4,008	4,008	1,485	14,989	16,474
Sales	(771)	(14,435)	(15,206)	(8,364)	(9,938)	(18,302)
Valuation adjustments		(1,556)	(1,556)	(733)	(4,267)	(5,000)
Balance, end of period	$ 18,905	$ 29,818	$ 48,723	$ 27,055	$ 83,618	$ 110,673

The following table provides a summary of OREO activity for the nine months ended September 30, 2013 and 2012:

	For the nine months ended September 30, 2013			For the nine months ended September 30, 2012		
(in thousands)	Non-Covered OREO	Covered OREO	Total	Non-Covered OREO	Covered OREO	Total
Balance, beginning of period	$ 21,027	$ 58,276	$ 79,303	$ 30,790	$ 98,550	$ 129,340
Additions	723	17,914	18,637	14,177	44,025	58,202
Sales	(2,552)	(39,597)	(42,149)	(12,781)	(42,632)	(55,413)
Valuation adjustments	(293)	(6,775)	(7,068)	(5,131)	(16,325)	(21,456)

Balance, end of period	$	18,905	$	29,818	$	48,723	$	27,055	$	83,618	$	110,673

At September 30, 2013, OREO was $48.7 million and included $29.8 million of covered OREO. At December 31, 2012, OREO was $79.3 million and included $58.3 million of covered OREO. The balance of OREO at September 30, 2013 and December 31, 2012 is net of valuation allowances of $20.0 million and $33.6 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 that is reimbursable or income that is payable is recorded in FDIC loss sharing income (expense), net in the noninterest income section of the consolidated statements of income.

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Note 8. Borrowed Funds

Short-term borrowings consist of funds with remaining maturities of one year or less and long-term debt consists of borrowings with remaining maturities greater than one year. The components of short-term borrowings and long-term debt as of September 30, 2013 and December 31, 2012 are provided below:

(in thousands) (1)	September 30, 2013	December 31, 2012
Short-term borrowings		
Current portion of senior notes:		
City National Corporation - 5.125% Senior Notes Due February 2013	$	$ 206,581
Federal funds purchased		1,214,200
Current portion of nonrecourse debt (5)	2,588	3,017
Total short-term borrowings	$ 2,588	$ 1,423,798
Long-term debt		
Senior notes:		
City National Corporation - 5.25% Senior Notes Due September 2020	$ 299,444	$ 297,613
Subordinated debt:		
City National Bank - 9.00% Subordinated Notes Due July 2019 (2)	50,000	49,755
City National Bank - 9.00% Subordinated Notes Due August 2019	75,000	74,876
City National Bank - Fixed and Floating Subordinated Notes due August 2019 (3)	55,000	54,909
City National Bank - 5.375% Subordinated Notes Due July 2022	149,993	148,642
Junior subordinated debt:		
Floating Rate Business Bancorp Capital Trust I Securities due November 2034 (4)	5,155	5,152
Nonrecourse debt (5)	84,734	75,104
Total long-term debt	$ 719,326	$ 706,051

(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) 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.

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

(4) These floating rate securities pay interest of three-month LIBOR plus 1.965 percent which is reset quarterly. As of September 30, 2013, the interest rate was approximately 2.23 percent.

(5) Nonrecourse debt bears interest at an average rate of 3.88 percent as of September 30, 2013 and has maturity dates ranging from November 2013 to December 2019.

The Company holds debt affiliated with 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 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 9. Shareholders Equity

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

The components of AOCI at September 30, 2013 and December 31, 2012 are as follows:

(in thousands)		September 30, 2013		December 31, 2012
Net unrealized (loss) gain on securities available-for-sale	$	(10,355)	$	86,526
Net unrealized gain on cash flow hedges				56
Total accumulated other comprehensive (loss) income	$	(10,355)	$	86,582

The following table presents the tax effects allocated to each component of other comprehensive (loss) income for the three and nine month periods ended September 30, 2013 and 2012:

	For the three months ended September 30, 2013			For the three months ended September 30, 2012		
(in thousands)	Pre-tax	Tax expense (benefit)	Net-of-tax	Pre-tax	Tax expense (benefit)	Net-of-tax
Securities available-for-sale:						
Net unrealized (losses) gains arising during the period	$ (23,334)	$ (9,761)	$ (13,573)	$ 20,701	$ 8,659	$ 12,042
Reclassification adjustment for net gains included in net income (1)	(5,788)	(2,421)	(3,367)	(48)	(20)	(28)
Non-credit related impairment loss				(1,471)	(615)	(856)
Total securities available-for-sale	(29,122)	(12,182)	(16,940)	19,182	8,024	11,158
Net change on cash flow hedges				(42)		(42)
Total other comprehensive (loss) income	$ (29,122)	$ (12,182)	$ (16,940)	$ 19,140	$ 8,024	$ 11,116

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

	For the nine months ended September 30, 2013			For the nine months ended September 30, 2012		
(in thousands)	Pre-tax		Net-of-tax	Pre-tax		Net-of-tax

		Tax expense (benefit)			Tax expense (benefit)	
Securities available-for-sale:						
Net unrealized (losses) gains arising during the period	$ (155,089)	$ (64,874)	$ (90,215)	$ 37,330	$ 15,615	$ 21,715
Reclassification adjustment for net gains included in net income (1)	(11,460)	(4,794)	(6,666)	(459)	(192)	(267)
Non-credit related impairment loss				(1,471)	(615)	(856)
Total securities available-for-sale	(166,549)	(69,668)	(96,881)	35,400	14,808	20,592
Net change on cash flow hedges	(56)		(56)	(125)		(125)
Pension liability adjustment (2)				1,085		1,085
Total other comprehensive (loss) income	$ (166,605)	$ (69,668)	$ (96,937)	$ 36,360	$ 14,808	$ 21,552

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

(2) Recognized in Salaries and employee benefits in the consolidated statements of income. See Note 15 for additional information.

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Note 9. Shareholders Equity (Continued)

The following table summarizes the Company s share repurchases for the three months ended September 30, 2013. 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 September 30, 2013.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)
July 1, 2013 to July 31, 2013	1,912	$ 68.13
August 1, 2013 to August 31, 2013	12	65.47
September 1, 2013 to September 30, 2013	3,022	65.70
Total share repurchases	4,946	66.64

Note 10. Earnings per Common Share

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

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

(in thousands, except per share amounts)	For the three months ended September 30, 2013	2012	For the nine months ended September 30, 2013	2012
Basic EPS:				
Net income attributable to City National Corporation	$ 63,633	$ 59,780	$ 174,897	$ 160,803
Less: Dividends on preferred stock	2,407		7,219	
Net income available to common shareholders	$ 61,226	$ 59,780	$ 167,678	$ 160,803
Less: Earnings allocated to participating securities	688	842	1,975	2,380
Earnings allocated to common shareholders	$ 60,538	$ 58,938	$ 165,703	$ 158,423
Weighted average common shares outstanding	54,274	53,425	54,039	53,092
Basic earnings per common share	$ 1.12	$ 1.10	$ 3.07	$ 2.98
Diluted EPS:				
Earnings allocated to common shareholders (1)	$ 60,543	$ 58,941	$ 165,716	$ 158,432
Weighted average common shares outstanding	54,274	53,425	54,039	53,092
Dilutive effect of equity awards	546	286	425	284
Weighted average diluted common shares outstanding	54,820	53,711	54,464	53,376

Diluted earnings per common share	$ 1.10	$ 1.10	$ 3.04	$ 2.97

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

The average price of the Company s common stock for the period is used to determine the dilutive effect of outstanding stock options. Antidilutive stock options are not included in the calculation of basic or diluted EPS. There were 1.0 million and 2.4 million average outstanding stock options that were antidilutive for the three months ended September 30, 2013 and 2012, respectively. There were 1.9 million and 2.7 million average outstanding stock options that were antidilutive for the nine months ended September 30, 2013 and 2012, respectively.

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Note 11. Share-Based Compensation

On September 30, 2013, 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 September 30, 2013. At September 30, 2013, there were approximately 3.3 million shares available for future grants. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2012 for further discussion of the Company s share-based compensation plan.

The compensation cost recognized for all share-based awards was $5.7 million and $16.3 million for the three and nine months ended September 30, 2013, respectively, compared with $4.7 million and $13.7 million for the three and nine months ended September 30, 2012, respectively. The total income tax benefit recognized in the consolidated statements of income for share-based compensation arrangements was $2.4 million and $6.8 million for the three and nine months ended September 30, 2013, respectively, compared with $2.0 million and $5.7 million for the three and nine months ended September 30, 2012, respectively. The Company received $25.0 million and $21.7 million in cash for the exercise of stock options during the nine months ended September 30, 2013 and 2012, respectively. The actual tax benefit realized for the tax deductions from stock option exercises was $4.2 million and $2.0 million for the nine months ended September 30, 2013 and 2012, respectively.

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

	For the three months ended September 30,		**For the nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
Weighted-average volatility			28.12%	30.58%
Dividend yield			2.15%	2.14%
Expected term (in years)			6.15	6.11
Risk-free interest rate			1.24%	1.44%

Using the Black-Scholes methodology, the weighted-average grant-date fair values of options granted during the nine months ended September 30, 2013 and 2012 were $12.57 and $11.64, respectively. The total intrinsic value of options exercised during the nine months ended September 30, 2013 and 2012 was $10.2 million and $7.6 million, respectively.

A summary of option activity and related information for the nine months ended September 30, 2013 is presented below:

	Number of Shares	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value**	**Weighted Average Remaining Contractual**

Options	(in thousands)	(per share)	(in thousands) (1)	Term
Outstanding at January 1, 2013	4,417	$ 53.91		
Granted	593	55.73		
Exercised	(587)	42.53		
Forfeited or expired	(69)	55.98		
Outstanding at September 30, 2013	4,354	$ 55.66	$ 54,522	5.70
Exercisable at September 30, 2013	2,937	$ 56.86	$ 35,391	4.35

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

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Note 11. Share-Based Compensation (Continued)

A summary of changes in unvested options and related information for the nine months ended September 30, 2013 is presented below:

Unvested Options	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2013	1,529	$ 13.36
Granted	593	12.57
Vested	(682)	12.25
Forfeited	(23)	13.33
Unvested at September 30, 2013	1,417	$ 13.58

The number of options vested during the nine months ended September 30, 2013 and 2012 was 681,816 and 669,241, respectively. The total fair value of options vested during the nine months ended September 30, 2013 and 2012 was $8.4 million and $8.2 million, respectively. As of September 30, 2013, there was $14.0 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 2.4 years.

A summary of changes in restricted stock and related information for the nine months ended September 30, 2013 is presented below:

Restricted Stock (1)	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Unvested at January 1, 2013	747	$ 50.73
Granted	70	56.01
Vested	(198)	45.91
Forfeited	(8)	49.82
Unvested at September 30, 2013	611	$ 52.91

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 nine months ended September 30, 2013 and 2012 was $56.01 and $47.04, respectively. The number of restricted shares vested during the nine months ended September 30, 2013 and 2012 was 198,268 and 187,898, respectively. The total fair value of restricted stock vested during the nine months ended September 30, 2013 and 2012 was $9.1 million and $8.7 million, respectively. As of September 30, 2013, the unrecognized compensation cost related to restricted stock granted under the Company s plans was $18.6 million. That cost is expected to be recognized over a weighted-average period of 2.7 years.

Cash-settled restricted stock units are initially valued at the closing price of the Company s stock on the date of award and subsequently remeasured at each reporting date until settlement. A summary of changes in cash-settled restricted stock units for the nine months ended September 30, 2013 is presented below:

Cash-Settled Restricted Stock Units	**Number of Shares (in thousands)**
Unvested at January 1, 2013	101
Granted	90
Forfeited	(2)
Unvested at September 30, 2013	189

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Note 12. Derivative Instruments

The following table summarizes the fair value and balance sheet classification of derivative instruments as of September 30, 2013 and December 31, 2012. 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)	September 30, 2013 Notional Amount	September 30, 2013 Derivative Assets	September 30, 2013 Derivative Liabilities	December 31, 2012 Notional Amount	December 31, 2012 Derivative Assets	December 31, 2012 Derivative Liabilities
Derivatives designated as hedging instruments						
Interest-rate swaps - fair value (1):						
Long-term and subordinated debt	$	$	$	$ 205.5	$ 2.3	$ 0.1
Total derivatives designated as hedging instruments	$	$	$	$ 205.5	$ 2.3	$ 0.1
Derivatives not designated as hedging instruments						
Interest-rate contracts:						
Swaps	$ 2,818.4	$ 46.8	$ 45.8	$ 2,243.6	$ 64.2	$ 64.2
Interest-rate caps, floors and collars	260.5	1.0	1.0	240.1	0.2	0.2
Options purchased	2.0	0.5	0.5	2.0	0.2	0.2
Options written	2.0			2.0		
Total interest-rate contracts	$ 3,082.9	$ 48.3	$ 47.3	$ 2,487.7	$ 64.6	$ 64.6
Option contracts	$	$ 0.5	$	$	$ 0.7	$
Foreign exchange contracts:						
Spot and forward contracts	$ 492.8	$ 4.2	$ 3.6	$ 231.4	$ 1.5	$ 1.3
Options purchased	7.8					
Options written	7.8	0.1	0.1			
Total foreign exchange contracts	$ 508.4	$ 4.3	$ 3.7	$ 231.4	$ 1.5	$ 1.3
Total derivatives not designated as hedging instruments	$ 3,591.3	$ 53.1	$ 51.0	$ 2,719.1	$ 66.8	$ 65.9

(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

As of September 30, 2013, the Company had no hedging instruments. As of December 31, 2012, the Company had $205.5 million notional amount of interest-rate swap contracts, all of which were designated as fair value hedges. The net positive fair value of the fair value hedges of $2.3 million was recorded in other assets. It included a mark-to-market asset of $1.1 million and net interest receivable of $1.2 million. The balance of borrowings reported in the consolidated balance sheet included a $1.1 million mark-to-market adjustment associated with interest-rate hedge transactions. There were no cash flow hedges at December 31, 2012.

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Note 12. Derivative Instruments (Continued)

The periodic net settlement of interest-rate swaps is recorded as an adjustment to interest income or interest expense. The impact of interest-rate swaps on interest income and interest expense for the three and nine months ended September 30, 2013 and 2012 is provided below:

(in millions) Derivatives Designated as Hedging Instruments	Location in Consolidated Statements of Income	For the three months ended September 30, 2013	 2012	For the nine months ended September 30, 2013	 2012
Interest-rate swaps-fair value	Interest expense	$	$ (2.1)	$ (1.0)	$ (6.2)
Interest-rate swaps-cash flow	Interest income			0.1	0.1
Total income		$	$ 2.1	$ 1.1	$ 6.3

Interest-rate swaps increased net interest income by $1.1 million for the nine months ended September 30, 2013 and $2.1 million and $6.3 million for the three and nine months ended September 30, 2012, respectively. The Company had no interest rate swaps that impacted net interest income during the third quarter of 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 nine-month periods ended September 30, 2013 and 2012. The $0.1 million of gains on cash flow hedges reclassified from AOCI to interest income for the nine months ended September 30, 2013 and 2012 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.

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 and nine months ended September 30, 2013 and 2012:

(in millions) Derivatives Not Designated as Hedging Instruments	Location in Consolidated Statements of Income	For the three months ended September 30, 2013	 2012	For the nine months ended September 30, 2013	 2012
Interest-rate contracts	Other noninterest income	$ (0.3)	$ 0.1	$ 0.9	$ (0.5)
Option contracts	Other noninterest income	(0.1)	(0.3)	0.3	(1.0)
Foreign exchange contracts	International services income	7.2	6.3	20.4	18.6
Total income		$ 6.8	$ 6.1	$ 21.6	$ 17.1

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 September 30, 2013 was $11.5 million. The Company delivered collateral in the form of securities valued at $1.2 million and cash totaling $10.7 million on swap agreements that had credit-risk contingent features that were in a net liability position at September 30, 2013.

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Note 12. Derivative Instruments (Continued)

The Company s interest-rate swaps had $0.6 million and $1.6 million of credit risk exposure at September 30, 2013 and December 31, 2012, 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 September 30, 2013. At December 31, 2012, the Company had received $1.0 million of collateral in the form of securities. The Company delivered collateral valued at $12.4 million on swap agreements that did not have credit-risk contingent features at September 30, 2013.

See Note 13 for additional information about the Company s derivative instruments subject to master netting agreements.

Note 13. 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 September 30, 2013 and December 31, 2012:

				Gross Amounts Not Offset in the Balance Sheet		
(in thousands)	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented in the Balance Sheet	Securities Collateral	Cash Collateral	Net Amount
September 30, 2013						
Financial assets:						
Derivatives not designated as hedging instruments	$ 13,196	$ (8,463)	$ 4,733	$	$	$ 4,733
Reverse repurchase agreements	200,000		200,000	(200,000)		

Total financial assets	$ 213,196	$ (8,463)	$ 204,733	$ (200,000)	$	$ 4,733
Financial liabilities:						
Derivatives not designated as hedging instruments	$ 43,332	$ (8,463)	$ 34,869	$ (13,638)	$ (10,718)	$ 10,513
Total financial liabilities	$ 43,332	$ (8,463)	$ 34,869	$ (13,638)	$ (10,718)	$ 10,513
December 31, 2012						
Financial assets:						
Derivatives designated as hedging instruments	$ 2,249	$ (83)	$ 2,166	$ (1,034)	$	$ 1,132
Derivatives not designated as hedging instruments	1,920	(1,454)	466			466
Total financial assets	$ 4,169	$ (1,537)	$ 2,632	$ (1,034)	$	$ 1,598
Financial liabilities:						
Derivatives designated as hedging instruments	$ 83	$ (83)	$	$	$	$
Derivatives not designated as hedging instruments	65,461	(1,453)	64,008	(48,697)		15,311
Total financial liabilities	$ 65,544	$ (1,536)	$ 64,008	$ (48,697)	$	$ 15,311

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Note 14. Income Taxes

The Company recognized income tax expense of $27.1 million and $73.7 million for the three and nine months ended September 30, 2013, respectively. The Company recognized income tax expense of $29.1 million and $78.0 million for the same periods in 2012.

The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense. The Company recognized a benefit on interest and penalties of approximately $0.4 million and interest and penalties expense of $0.2 million for the nine months ended September 30, 2013 and 2012, respectively. The Company had approximately $3.0 million and $3.4 million of accrued interest and penalties as of September 30, 2013 and December 31, 2012, respectively.

The Company and its subsidiaries file a consolidated federal income tax return and also file income tax returns in various state jurisdictions. The Company is currently being audited by the Internal Revenue Service for the tax year 2013. 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.

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 nine month period ended September 30, 2013.

Note 15. 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 $5.5 million and $15.5 million for the three and nine months ended September 30, 2013, respectively. Profit sharing and matching contribution expense was $4.8 million and $14.3 million for the same periods in 2012, respectively.

Deferred Compensation Plan

The Company offers a deferred compensation plan for eligible employees and non-employee directors. Participants under the employee plan may make an annual irrevocable election to defer a portion of base salary and up to 100 percent of commission and incentive compensation while employed with the Company. Participants under the non-employee director plan also may make an annual irrevocable election to defer all or part of annual retainers, annual awards, committee chair retainers and meeting fees (collectively, directors fees) until board service with the Company ceases. The deferred compensation plans are nonqualified plans under IRS regulations. Deferrals are made on a pretax basis and are allocated among the investment options available under the plans as directed by the plan participants. The Company funds plan benefits through the purchase of life insurance policies which are recorded in Other assets on the consolidated balance sheets. Participant deferrals are recorded in Other liabilities on the consolidated balance sheets. Employee salaries and non-employee directors fees deferred under the plan are charged to Salaries and employee benefits and Other operating expense, respectively, on the consolidated statements of income. Earnings on plan assets, net of benefits payable to plan participants, are reported in Salaries and employee benefits on the consolidated statements of income, and were $0.2 million and $0.7 million for the three and nine months ended September 30, 2013, respectively. Earnings on plan assets, net of benefits payable to plan participants, were $0.1 million and $0.4 million for the same periods in 2012, respectively.

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Note 15. Employee Benefit Plans (Continued)

Other Plans

Prior to March 14, 2012, the Company provided a supplemental retirement benefit (also referred to as a SERP benefit) to one of its executive officers. On March 14, 2012, the executive s supplemental retirement benefit agreement was amended to terminate the executive s right to receive SERP benefits in exchange for fully vested interests in a deferred compensation stock fund. On March 14, 2012, the SERP benefit was terminated and the actuarial present value of the accumulated SERP benefit was calculated as of that date. The present value of the accumulated SERP benefit under the amended agreement at March 14, 2012 was deemed to be invested in the deferred compensation stock fund, with the number of units being determined by the closing price of the Company s stock on March 14, 2012. The benefit was converted to 167,423 units in the deferred compensation stock fund at March 14, 2012. Distributions to the executive officer from the stock fund will be made solely in Company stock upon termination of employment. As a result of this conversion, the Company reversed its $8.3 million pension liability related to the SERP benefit, recorded the fully vested interests in the deferred compensation stock fund in equity for the same amount, and recognized expense of $1.7 million in the consolidated statements of income in the quarter ended March 31, 2012. The Company recognized total expense related to this SERP of $1.9 million for the nine months ended September 30, 2012 and no expense for the nine months ended September 30, 2013.

The Company also administers a Supplemental Executive Retirement Plan (SERP Plan) covering three former executives of Pacific Bank, which the Company acquired in 2000. As of September 30, 2013, there was an unfunded pension liability for the SERP Plan of $2.3 million. Expense for the three months ended September 30, 2013 and 2012 was nominal. Expense for the nine months ended September 30, 2013 and 2012 was $0.2 million and $0.1 million, respectively.

Note 16. 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 17. 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 $182.1 million and $154.0 million at September 30, 2013 and December 31, 2012, respectively, and is included in Affordable housing investments in the consolidated balance sheets. Unfunded commitments for affordable housing investments were $81.0 million at September 30, 2013. These unfunded commitments are recorded in

Other liabilities in the consolidated balance sheets.

Of the affordable housing investments held as of September 30, 2013, 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 $1.4 million aggregate carrying value of these investments at September 30, 2013. There were no unfunded commitments for these affordable housing investments at September 30, 2013.

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 $36.3 million and $36.1 million at September 30, 2013 and December 31, 2012, 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.

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Note 18. 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 five investment management and wealth advisory affiliates that it consolidates. In general, the management of each majority-owned affiliate has a significant noncontrolling ownership position in its firm and supervises the day-to-day operations of the affiliate. The Corporation is in regular contact with each affiliate regarding its operations and is an active participant in the management of the affiliates through its position on each firm s board.

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 September 30, 2013, affiliate noncontrolling owners held equity interests with an estimated fair value of $39.8 million. This estimate reflects the maximum obligation to purchase equity interests in the affiliates. The events which would require the Company to purchase the equity interests may occur in the near term or over a longer period of time. The terms of the put provisions vary by agreement, but the value of the put is at the approximate fair value of the interests. The parent company carries key man life insurance policies to fund a portion of these conditional purchase obligations in the event of the death of certain key holders.

The following is a summary of activity for redeemable noncontrolling interest for the nine months ended September 30, 2013 and 2012:

(in thousands)	For the nine months ended September 30, 2013	2012
Balance, beginning of period	$ 41,112	$ 44,643
Net income	1,657	1,024
Distributions to redeemable noncontrolling interest	(1,285)	(1,261)
Additions and redemptions, net	(1,625)	(1,987)
Adjustments to fair value	(19)	(1,033)
Balance, end of period	$ 39,840	$ 41,386

Note 19. 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.

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Note 19. Segment Results (Continued)

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

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

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.

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Note 19. Segment Results (Continued)

	For the three months ended September 30, 2013			
(in thousands)	Commercial and Private Banking	Wealth Management	Other	Consolidated Company
Earnings Summary:				
Net interest income				