

CITY NATIONAL CORP  
Form 10-Q  
November 07, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-10521

**CITY NATIONAL CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State of Incorporation)

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

**City National Plaza**

**555 South Flower Street, Los Angeles, California, 90071**

(Address of principal executive offices)(Zip Code)

**(213) 673-7700**

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

As of October 31, 2014, there were 55,114,531 shares of Common Stock outstanding (including unvested restricted shares).



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**CITY NATIONAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts)	September 30, 2014 (Unaudited)	December 31, 2013
<b>Assets</b>		
Cash and due from banks	\$ 503,647	\$ 183,227
Due from banks - interest-bearing	625,183	552,719
Federal funds sold and securities purchased under resale agreements	200,000	200,000
Securities available-for-sale - cost \$5,641,894 and \$6,267,691 at September 30, 2014 and December 31, 2013, respectively:		
Securities pledged as collateral	11,684	12,376
Held in portfolio	5,617,492	6,228,741
Securities held-to-maturity - fair value \$3,461,988 and \$2,883,935 at September 30, 2014 and December 31, 2013, respectively:		
Securities pledged as collateral	528,916	
Held in portfolio	2,921,635	2,957,843
Trading securities	125,910	82,357
Loans and leases, excluding covered loans	19,347,988	17,170,438
Less: Allowance for loan and lease losses	312,703	302,584
Loans and leases, excluding covered loans, net	19,035,285	16,867,854
Covered loans, net of allowance for loan losses	543,347	700,989
Net loans and leases	19,578,632	17,568,843
Premises and equipment, net	208,711	198,398
Deferred tax asset	215,951	217,990
Goodwill	635,868	642,622
Customer-relationship intangibles, net	36,255	40,621
Affordable housing investments	203,208	188,207
Customers acceptance liability	2,137	10,521
Other real estate owned (\$14,487 and \$25,481 covered by FDIC loss share at September 30, 2014 and December 31, 2013, respectively)	24,602	38,092
FDIC indemnification asset	59,917	89,227
Other assets	515,852	506,167
Total assets	\$ 32,015,600	\$ 29,717,951
<b>Liabilities</b>		
Demand deposits	\$ 17,827,649	\$ 16,058,968
Interest checking deposits	2,520,761	2,467,890
Money market deposits	6,540,000	6,022,457
Savings deposits	473,150	441,521
Time deposits-under \$100,000	162,522	176,488
Time deposits-\$100,000 and over	431,898	512,113
Total deposits	27,955,980	25,679,437
Short-term borrowings	4,635	3,889
Long-term debt	631,434	735,968
Reserve for off-balance sheet credit commitments	25,910	33,944

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Acceptances outstanding	2,137	10,521
Other liabilities	448,853	473,438
Total liabilities	29,068,949	26,937,197
<b>Redeemable noncontrolling interest</b>	47,222	39,768
<b>Commitments and contingencies</b>		
<b>Shareholders' equity</b>		
Preferred stock, par value \$1.00 per share; 5,000,000 shares authorized; 275,000 shares issued at September 30, 2014 and December 31, 2013	267,616	267,616
Common stock, par value \$1.00 per share; 75,000,000 shares authorized; 55,057,737 and 54,667,295 shares issued at September 30, 2014 and December 31, 2013, respectively	55,058	54,667
Additional paid-in capital	565,822	541,210
Accumulated other comprehensive loss	(7,592)	(15,641)
Retained earnings	2,040,868	1,918,163
Treasury shares, at cost - 378,456 and 483,523 shares at September 30, 2014 and December 31, 2013, respectively	(22,343)	(25,029)
Total common shareholders' equity	2,631,813	2,473,370
Total shareholders' equity	2,899,429	2,740,986
Total liabilities and shareholders' equity	\$ 32,015,600	\$ 29,717,951

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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**CITY NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(in thousands, except per share amounts)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
<b>Interest income</b>				
Loans and leases	\$ 181,647	\$ 186,049	\$ 538,343	\$ 530,398
Securities	43,863	40,078	128,910	125,563
Due from banks - interest-bearing	363	403	1,183	674
Federal funds sold and securities purchased under resale agreements	1,721	1,563	4,568	4,253
Total interest income	227,594	228,093	673,004	660,888
<b>Interest expense</b>				
Deposits	2,033	2,927	6,227	8,856
Federal funds purchased and securities sold under repurchase agreements		1		401
Subordinated debt	4,722	6,129	16,943	18,352
Other long-term debt	5,063	4,765	15,158	14,467
Other short-term borrowings				549
Total interest expense	11,818	13,822	38,328	42,625
<b>Net interest income</b>	<b>215,776</b>	<b>214,271</b>	<b>634,676</b>	<b>618,263</b>
(Reversal of) provision for credit losses on loans and leases, excluding covered loans	(8,000)		(9,000)	
Provision for losses on covered loans	589	2,496	3,783	461
Net interest income after provision	223,187	211,775	639,893	617,802
<b>Noninterest income</b>				
Trust and investment fees	56,834	49,430	164,739	145,913
Brokerage and mutual fund fees	11,021	7,307	35,303	23,480
Cash management and deposit transaction charges	12,200	12,263	36,361	38,152
International services	12,233	10,932	34,111	31,462
FDIC loss sharing expense, net	(9,606)	(20,992)	(40,850)	(51,821)
Gain on disposal of assets	2,985	3,092	12,649	5,155
Gain on sale of securities	14	5,788	7,503	12,624
Other	22,311	21,207	60,771	59,981
Impairment loss on securities:				
Total other-than-temporary impairment loss on securities	(318)	(144)	(566)	(326)
Less: Portion of loss recognized in other comprehensive income	243		243	
Net impairment loss recognized in earnings	(75)	(144)	(323)	(326)
Total noninterest income	107,917	88,883	310,264	264,620
<b>Noninterest expense</b>				
Salaries and employee benefits	142,210	129,049	417,902	384,412
Net occupancy of premises	15,862	16,074	48,551	48,268
Legal and professional fees	14,350	10,731	45,693	36,197
Information services	10,260	9,876	29,069	28,450
Depreciation and amortization	8,276	7,827	23,989	24,248
Amortization of intangibles	1,426	1,932	4,367	5,795
Marketing and advertising	7,576	7,887	26,333	24,156
Office services and equipment	5,038	4,821	15,235	14,801
Other real estate owned	2,360	5,196	6,165	14,831

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FDIC assessments	4,629	3,776	8,785	12,920
Other operating	15,215	12,195	41,628	38,055
Total noninterest expense	227,202	209,364	667,717	632,133
Income before income taxes	103,902	91,294	282,440	250,289
Income taxes	34,404	27,052	90,521	73,735
<b>Net income</b>	<b>\$ 69,498</b>	<b>\$ 64,242</b>	<b>\$ 191,919</b>	<b>\$ 176,554</b>
Less: Net income attributable to noncontrolling interest	847	609	2,056	1,657
<b>Net income attributable to City National Corporation</b>	<b>\$ 68,651</b>	<b>\$ 63,633</b>	<b>\$ 189,863</b>	<b>\$ 174,897</b>
Less: Dividends on preferred stock	4,093	2,407	12,281	7,219
<b>Net income available to common shareholders</b>	<b>\$ 64,558</b>	<b>\$ 61,226</b>	<b>\$ 177,582</b>	<b>\$ 167,678</b>
Net income per common share, basic	\$ 1.16	\$ 1.12	\$ 3.20	\$ 3.07
Net income per common share, diluted	\$ 1.15	\$ 1.10	\$ 3.16	\$ 3.04
Weighted average common shares outstanding, basic	55,031	54,274	54,893	54,039
Weighted average common shares outstanding, diluted	55,765	54,820	55,616	54,464
Dividends per common share	\$ 0.33	\$ 0.25	\$ 0.99	\$ 0.50

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,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$ 69,498	\$ 64,242	\$ 191,919	\$ 176,554
Other comprehensive (loss) income, net of tax:				
Securities available-for-sale:				
Net unrealized (losses) gains arising during the period	(9,547)	(13,573)	12,586	(90,215)
Reclassification adjustment for net gains included in net income	(4)	(3,367)	(4,396)	(6,666)
Non-credit related impairment loss	(141)		(141)	
Net change on cash flow hedges				(56)
Total other comprehensive (loss) income	(9,692)	(16,940)	8,049	(96,937)
Comprehensive income	\$ 59,806	\$ 47,302	\$ 199,968	\$ 79,617
Less: Comprehensive income attributable to noncontrolling interest	847	609	2,056	1,657
Comprehensive income attributable to City National Corporation	\$ 58,959	\$ 46,693	\$ 197,912	\$ 77,960

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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**CITY NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

(in thousands)	For the nine months ended September 30,	
	2014	2013
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 191,919	\$ 176,554
Adjustments to net income:		
(Reversal of) provision for credit losses on loans and leases, excluding covered loans	(9,000)	
Provision for losses on covered loans	3,783	461
Amortization of intangibles	4,367	5,795
Depreciation and amortization	23,989	24,248
Share-based employee compensation expense	16,116	16,283
Deferred income tax benefit	(3,758)	(1,888)
Gain on disposal of assets	(12,649)	(5,155)
Gain on sale of securities	(7,503)	(12,624)
Impairment loss on securities	323	326
Other, net	21,706	24,759
Net change in:		
Trading securities	(43,608)	64,772
Other assets and other liabilities, net	(44,477)	81,814
Net cash provided by operating activities	141,208	375,345
<b>Cash Flows From Investing Activities</b>		
Purchase of securities available-for-sale	(1,537,655)	(1,775,702)
Sales of securities available-for-sale	627,102	1,835,775
Maturities and paydowns of securities available-for-sale	1,527,117	2,064,288
Purchase of securities held-to-maturity	(615,295)	(277,199)
Maturities and paydowns of securities held-to-maturity	119,727	23,826
Loan originations, net of principal collections	(1,970,596)	(1,436,714)
Net payments for premises and equipment	(34,446)	(43,415)
Proceeds from sale of business	7,053	
Other investing activities, net	13,976	48,429
Net cash (used in) provided by investing activities	(1,863,017)	439,288
<b>Cash Flows From Financing Activities</b>		
Net increase in deposits	2,276,543	1,734,514
Net decrease in federal funds purchased		(1,214,200)
Issuance of long-term debt	31,759	35,289
Repayment of long-term debt	(135,473)	(231,382)
Proceeds from exercise of stock options	21,734	24,963
Tax benefit from exercise of stock options	4,022	3,749
Cash dividends paid	(66,624)	(34,355)
Other financing activities, net	(17,268)	(1,902)
Net cash provided by financing activities	2,114,693	316,676
Net increase in cash and cash equivalents	392,884	1,131,309
Cash and cash equivalents at beginning of year	935,946	415,405
Cash and cash equivalents at end of period	\$ 1,328,830	\$ 1,546,714
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	\$ 48,019	\$ 56,100

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Income taxes		102,757		11,478
Non-cash investing activities:				
Transfer of loans to other real estate owned	\$	11,364	\$	18,637

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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## CITY NATIONAL CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(in thousands, except share amounts)	Common shares issued	Preferred stock	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Total shareholders equity
Balance, January 1, 2013	53,885,886	\$ 169,920	\$ 53,886	\$ 490,339	\$ 86,582	\$ 1,738,957	\$ (34,366)	\$ 2,505,318
Net income (1)						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
Balance, January 1, 2014	54,667,295	\$ 267,616	\$ 54,667	\$ 541,210	\$ (15,641)	\$ 1,918,163	\$ (25,029)	\$ 2,740,986
Net income (1)						189,863		189,863
Other comprehensive income, net of tax					8,049			8,049
Issuance of shares under share-based compensation plans	390,442		391	14,402			2,688	17,481
Share-based employee compensation expense				13,305				13,305
Tax benefit from share-based compensation plans				4,188				4,188
Dividends:								
Preferred						(12,281)		(12,281)
Common						(54,877)		(54,877)
Net change in deferred compensation plans				884			(2)	882
Change in redeemable noncontrolling interest				(8,167)				(8,167)
Balance, September 30, 2014	55,057,737	\$ 267,616	\$ 55,058	\$ 565,822	\$ (7,592)	\$ 2,040,868	\$ (22,343)	\$ 2,899,429

(1) Net income excludes net income attributable to redeemable noncontrolling interest of \$2,056 and \$1,657 for the nine month periods ended September 30, 2014 and 2013, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets. See Note 17 of the Notes to the Unaudited Consolidated Financial Statements.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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**CITY NATIONAL CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Summary of Significant Accounting Policies**

*Organization*

City National Corporation (the Corporation) is the holding company for City National Bank (the Bank). The Bank delivers banking, trust and investment services through 77 offices in Southern California, the San Francisco Bay area, Nevada, New York City, Nashville, Tennessee and Atlanta, Georgia. As of September 30, 2014, the Corporation had four consolidated investment advisory affiliates and one unconsolidated subsidiary, Business Bancorp Capital Trust I. Because the Bank comprises substantially all of the business of the Corporation, references to the Company mean the Corporation and the Bank together. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

*Consolidation*

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

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

*Use of Estimates*

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

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

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**Note 1. Summary of Significant Accounting Policies (Continued)**

*Basis of Presentation*

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

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

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

*Accounting Pronouncements*

The following is a summary of accounting pronouncements that became effective during the nine months ended September 30, 2014:

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



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

The following is a summary of recently issued accounting pronouncements:

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

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**Note 1. Summary of Significant Accounting Policies (Continued)**

- In January 2014, the FASB issued ASU 2014-04, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure* ( ASU 2014-04 ). ASU 2014-04 requires entities to reclassify consumer mortgage loans collateralized by residential real estate to OREO when either (1) the creditor obtains legal title to the residential real estate property or (2) the borrower conveys all interest in the property to the creditor to satisfy the loan by completing a deed in lieu of foreclosure or similar agreement. The ASU becomes effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Entities will have the option of adopting the guidance using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.
- In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ( ASU 2014-08 ). ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under the revised standard, a discontinued operation is (1) a component of an entity or group of components that has been disposed of by sale, disposed of other than by sale or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity's operations and financial results or (2) an acquired business or nonprofit activity that is classified as held for sale on the date of the acquisition. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014, and interim periods therein. The new guidance will be applied prospectively. Early adoption is permitted. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.
- In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606* ( ASU 2014-09 ). The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU outlines a five-step process for applying the new revenue model and expands required disclosures on revenue recognition. The ASU is effective for annual reporting periods, and interim reporting periods within those periods, beginning after December 15, 2016. Entities have the option of using either a full or modified retrospective approach for adoption. Early application is not permitted. The Company is assessing the impact of the new guidance on its consolidated financial statements.
- In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860), Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* ( ASU 2014-11 ). ASU 2014-11 aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other repurchase agreements. Going forward, these transactions will all be accounted for as secured borrowings. Under the new guidance, parties to a repurchase financing transaction will be required to separately account for the initial transfer of the financial asset and the related repurchase agreement. The initial transfer of the financial asset would be accounted for as a sale by the transferor only if all criteria for derecognition have been met. ASU 2014-11 requires new or expanded disclosures for repurchase agreements and similar transactions accounted for as secured borrowings. The ASU becomes effective for the Company for the first interim or annual period beginning after December 15, 2014. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

Table of Contents**Note 1. Summary of Significant Accounting Policies (Continued)**

- In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 incorporates into U.S. GAAP a requirement that management complete a going concern evaluation similar to that performed by an entity’s external auditor. Under the new guidance, management will be required to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date of issuance of the entity’s financial statements. Further, an entity must provide certain disclosures if there is substantial doubt about the entity’s ability to continue as a going concern. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods thereafter. Adoption of the new guidance is not expected to have a significant impact on the Company’s consolidated financial statements.

**Note 2. Fair Value Measurements**

The following tables summarize assets and liabilities measured at fair value as of September 30, 2014 and December 31, 2013 by level in the fair value hierarchy:

(in thousands)	Fair Value Measurements at Reporting Date Using			
	Balance as of September 30, 2014	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Measured on a Recurring Basis</b>				
<b>Assets</b>				
Securities available-for-sale:				
U.S. Treasury	\$ 46,765	\$ 46,765	\$	\$
Federal agency - Debt	1,326,728		1,326,728	
Federal agency - MBS	106,976		106,976	
CMOs - Federal agency	3,559,078		3,559,078	
CMOs - Non-agency	25,282		25,282	
State and municipal	381,993		378,469	3,524
Other debt securities	177,042		177,042	
Equity securities and mutual funds	5,312	5,312		
Trading securities	125,910	122,145	3,765	
Derivative assets (1)	39,580	4,814	34,086	680
Contingent consideration asset (1)	2,930			2,930
<b>Total assets at fair value</b>	<b>\$ 5,797,596</b>	<b>\$ 179,036</b>	<b>\$ 5,611,426</b>	<b>\$ 7,134</b>
<b>Liabilities</b>				
Derivative liabilities	\$ 39,463	\$ 5,735	\$ 33,728	\$
Contingent consideration liability	34,493			34,493
FDIC clawback liability	14,524			14,524
Other liabilities	901		901	
<b>Total liabilities at fair value (2)</b>	<b>\$ 89,381</b>	<b>\$ 5,735</b>	<b>\$ 34,629</b>	<b>\$ 49,017</b>
<b>Redeemable noncontrolling interest</b>	<b>\$ 47,222</b>	<b>\$</b>	<b>\$</b>	<b>\$ 47,222</b>
<b>Measured on a Nonrecurring Basis</b>				

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**Assets**

Other real estate owned (3)	\$	8,101	\$	\$	\$	8,101
<b>Total assets at fair value</b>	\$	8,101	\$	\$	\$	8,101

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

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

(3) Includes covered OREO.

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

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

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

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

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

(4) Includes covered OREO.

At September 30, 2014, \$5.80 billion, or approximately 18 percent, of the Company's total assets were recorded at fair value on a recurring basis, compared with \$6.36 billion, or 21 percent, at December 31, 2013. The majority of these financial assets were valued using Level 1 or Level 2

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inputs. Less than one percent of total assets were measured using Level 3 inputs. At September 30, 2014, \$89.4 million of the Company's total liabilities were recorded at fair value using mostly Level 2 or Level 3 inputs, compared with \$95.9 million at December 31, 2013. There were no transfers between Level 1 and Level 2 of the fair value hierarchy for assets or liabilities measured on a recurring basis during the nine months ended September 30, 2014. At September 30, 2014, \$8.1 million of the Company's total assets were recorded at fair value on a nonrecurring basis, compared with \$21.7 million at December 31, 2013. These assets represent less than one percent of total assets and were measured using Level 3 inputs.

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

Assets and liabilities for which fair value measurement is based on significant unobservable inputs are classified as Level 3 in the fair value hierarchy. The following table provides a reconciliation of the beginning and ending balances for Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2014 and 2013.

**Level 3 Assets and Liabilities Measured on a Recurring Basis**

(in thousands)	For the nine months ended September 30, 2014				
	Securities Available-for- Sale	Contingent Consideration Asset	Equity Warrants	Contingent Consideration Liability	FDIC Clawback Liability
Balance, beginning of period	\$ 3,633	\$	\$	\$ (49,900)	\$ (11,967)
Total realized/unrealized gains (losses):					
Included in earnings			78		(2,557)
Included in other comprehensive income	(9)				
Additions		2,930	631		
Settlements	(100)		(29)	17,266	
Other (1)				(1,859)	
Balance, end of period	\$ 3,524	\$ 2,930	\$ 680	\$ (34,493)	\$ (14,524)

(in thousands)	For the nine months ended September 30, 2013		
	Securities Available-for- Sale	Contingent Consideration Liability	FDIC Clawback Liability
Balance, beginning of period	\$ 65,187	\$ (47,724)	\$ (9,970)
Total realized/unrealized gains (losses):			
Included in earnings			(1,309)
Included in other comprehensive income	(35)		
Settlements	(3,655)		
Other (1)	91	(1,626)	
Balance, end of period	\$ 61,588	\$ (49,350)	\$ (11,279)

(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 and valuation adjustment related to the contingent consideration liability.

Redeemable noncontrolling interest is classified as Level 3 in the fair value hierarchy and measured on a recurring basis. Redeemable noncontrolling interest is valued based on a combination of factors, including but not limited to, observable valuation of firms similar to the affiliates, multiples of revenue or profit, unique investment products or performance track records, strength in the marketplace, projected

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discounted cash flow scenarios, strategic value of affiliates to other entities, as well as unique sources of value specific to an individual firm. The methodology used to fair value these interests is consistent with the industry practice of valuing similar types of instruments. Refer to Note 17, *Noncontrolling Interest*, for a rollforward of activity for the nine months ended September 30, 2014 and 2013.



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

Level 3 assets measured at fair value on a recurring basis include municipal auction rate securities that are classified in securities available-for-sale, a contingent consideration asset and equity warrants. 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. The contingent consideration asset represents the fair value of future payments to be received on the sale of the Company's retirement services business. The fair value of contingent consideration was determined by discounting the expected future cash flows using a bond rate for an investment grade finance company. Equity warrants in private companies obtained in association with certain loan transactions are classified as derivative assets and are measured at fair value on a recurring basis. The Black-Scholes option pricing model is used to value the warrants. Key inputs to the valuation model include current share estimated fair value, strike price, volatility, expected life, risk-free interest rate, market and liquidity discounts. Several of the inputs to the valuation model incorporate assumptions by management that are not observable in the market; consequently, the valuation of warrants is classified in Level 3 of the fair value hierarchy. The grant date fair value of a warrant is deemed to be a loan fee and is recognized in interest income over the life of the loan as an adjustment to loan yield. Refer to Note 11, *Derivative Instruments*, for additional discussion of Equity Warrants. During the nine months ended September 30, 2013, Level 3 assets measured on a recurring basis also included a collateralized debt obligation senior note classified as an available-for-sale security. This security was sold during the fourth quarter of 2013.

Level 3 liabilities measured at fair value on a recurring basis consist of contingent consideration and an FDIC clawback liability that are included in other liabilities. As part of its acquisition of Rochdale Investment Management, LLC and associated entities (collectively, "Rochdale"), the Company entered into a contingent consideration arrangement that requires the Company to pay additional cash consideration to Rochdale's former shareholders at certain points in time over the six years after the date of acquisition if certain criteria, such as revenue growth and pre-tax margin, are met. During the nine months ended September 30, 2014, the Company made total contingent consideration payments to Rochdale's former shareholders of approximately \$17.3 million. The fair value of the remaining contingent consideration was estimated using a probability-weighted discounted cash flow model. Although the acquisition agreement does not set a limit on the total payment, the Company estimates that the remaining consideration payment could be in the range of \$26 million to \$55 million, but will ultimately be determined based on actual future results. The contingent consideration liability is remeasured to fair value at each reporting date until its settlement.

The FDIC clawback liability was valued using the discounted cash flow method based on the terms specified in loss-sharing agreements with the FDIC, the actual FDIC payments collected, and the following unobservable inputs: (1) risk-adjusted discount rate reflecting the Bank's credit risk, plus a liquidity premium, (2) prepayment assumptions, and (3) credit assumptions.

During the nine months ended September 30, 2014, a \$2.9 million contingent consideration asset and \$0.6 million of equity warrants were added to Level 3 assets measured on a recurring basis. There were no other purchases or transfers out of Level 3 assets measured on a recurring basis during the nine months ended September 30, 2014 and 2013. Paydowns totaling \$0.1 million and \$3.7 million were received on Level 3 assets measured on a recurring basis for the nine months ended September 30, 2014 and 2013, respectively.

*Nonrecurring Fair Value Measurements*

Assets measured at fair value on a nonrecurring basis using significant unobservable inputs include certain collateral dependent impaired loans, OREO for which fair value is not solely based on market observable inputs, and certain private equity and alternative investments. Private equity and alternative investments do not have readily determinable fair values. These investments are carried at cost and evaluated for impairment on a

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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.

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

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

**Information About Nonrecurring Level 3 Fair Value Measurements**

(in thousands)	Fair Value at September 30, 2014	Valuation Method	Unobservable Inputs
Other real estate owned	\$ 8,101	Third-party appraisal	- Fair values are primarily based on unadjusted appraised values.

For assets measured at fair value on a nonrecurring basis, the following table presents the total net gains and losses, which include charge-offs, recoveries, specific reserves, OREO valuation write-downs and write-ups, gains and losses on sales of OREO, and impairment write-downs on private equity investments, recognized in the three and nine months ended September 30, 2014 and 2013:

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Collateral dependent impaired loans:				
Commercial real estate mortgages	\$	\$ (934)	\$ (5)	\$ (641)
Residential mortgages		7	(2)	(224)
Home equity loans and lines of credit				116
Installment				(138)
Other real estate owned (1)		(283)	(364)	(5,075)
Private equity and alternative investments			(109)	(508)
Total net gains (losses) recognized	\$	\$ (276)	\$ 860	\$ (6,470)

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

*Fair Value of Financial Instruments*

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

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The disclosure does not include estimated fair value amounts for assets and liabilities which are not defined as financial instruments but which have significant value. These assets and liabilities include the value of customer-relationship intangibles, goodwill, affordable housing investments carried at cost, other assets, deferred taxes and other liabilities. Accordingly, the total of the fair values presented does not represent the underlying value of the Company.

Table of Contents**Note 2. 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.

(in millions)	Carrying Amount	Total Fair Value	September 30, 2014		
			Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Cash and due from banks	\$ 503.6	\$ 503.6	\$ 503.6	\$	\$
Due from banks - interest bearing	625.2	625.2	625.2		
Securities purchased under resale agreements	200.0	199.3		199.3	
Securities held-to-maturity	3,450.6	3,462.0		3,462.0	
Loans and leases, net of allowance	19,035.3	19,612.6			19,612.6
Covered loans, net of allowance	543.3	590.3			590.3
FDIC indemnification asset	59.9	48.3			48.3
Investment in FHLB and FRB stock	58.4	58.4		58.4	
<b>Financial Liabilities:</b>					
Deposits	\$ 27,956.0	\$ 27,957.8	\$	\$ 27,361.6	\$ 596.2
Short-term borrowings	4.6	4.6			4.6
Long-term debt	631.4	697.1		605.5	91.6

(in millions)	Carrying Amount	Total Fair Value	December 31, 2013		
			Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Cash and due from banks	\$ 183.2	\$ 183.2	\$ 183.2	\$	\$
Due from banks - interest bearing	552.7	552.7	552.7		
Securities purchased under resale agreements	200.0	200.5		200.5	
Securities held-to-maturity	2,957.8	2,883.9		2,883.9	
Loans and leases, net of allowance	16,867.9	17,362.9			17,362.9
Covered loans, net of allowance	701.0	739.5			739.5
FDIC indemnification asset	89.2	74.3			74.3
Investment in FHLB and FRB stock	64.4	64.4		64.4	
<b>Financial Liabilities:</b>					
Deposits	\$ 25,679.4	\$ 25,682.2	\$	\$ 24,990.8	\$ 691.4
Short-term borrowings	3.9	3.9			3.9
Long-term debt	736.0	788.9		697.8	91.1

Following is a description of the methods and assumptions used in estimating the fair values of these financial instruments:

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*Cash and due from banks and Due from banks interest bearing* 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 2. 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 FHLB and FRB stock is equal to the carrying amount.

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

*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.



Table of Contents**Note 3. Securities**

At September 30, 2014, the Company had total securities of \$9.21 billion, comprised of securities available-for-sale at fair value of \$5.63 billion, securities held-to-maturity at amortized cost of \$3.45 billion and trading securities at fair value of \$125.9 million. At December 31, 2013, the Company had total securities of \$9.28 billion, comprised of securities available-for-sale at fair value of \$6.24 billion, securities held-to-maturity at amortized cost of \$2.96 billion and trading securities at fair value of \$82.4 million.

The following is a summary of amortized cost and estimated fair value for the major categories of securities available-for-sale and securities held-to-maturity at September 30, 2014 and December 31, 2013:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2014</b>				
<b>Securities available-for-sale:</b>				
U.S. Treasury	\$ 46,716	\$ 49	\$	\$ 46,765
Federal agency - Debt	1,329,891	581	(3,744)	1,326,728
Federal agency - MBS	105,992	2,826	(1,842)	106,976
CMOs - Federal agency	3,583,667	23,201	(47,790)	3,559,078
CMOs - Non-agency	25,521	128	(367)	25,282
State and municipal	374,948	7,131	(86)	381,993
Other debt securities	174,538	2,504		177,042
Total debt securities	5,641,273	36,420	(53,829)	5,623,864
Equity securities and mutual funds	621	4,691		5,312
Total securities available-for-sale	\$ 5,641,894	\$ 41,111	\$ (53,829)	\$ 5,629,176
<b>Securities held-to-maturity (1):</b>				
Federal agency - Debt	\$ 296,900	\$ 4,013	\$ (1,154)	\$ 299,759
Federal agency - MBS	582,365	7,137	(5,186)	584,316
CMOs - Federal agency	1,847,655	14,816	(23,018)	1,839,453
State and municipal	625,860	17,884	(2,925)	640,819
Other debt securities	97,771	60	(190)	97,641
Total securities held-to-maturity	\$ 3,450,551	\$ 43,910	\$ (32,473)	\$ 3,461,988
<b>December 31, 2013</b>				
<b>Securities available-for-sale:</b>				
U.S. Treasury	\$ 35,312	\$ 23	\$	\$ 35,335
Federal agency - Debt	1,417,509	938	(7,911)	1,410,536
Federal agency - MBS	156,399	3,615	(2,788)	157,226
CMOs - Federal agency	4,037,348	30,721	(70,771)	3,997,298
CMOs - Non-agency	38,383	127	(1,048)	37,462
State and municipal	407,312	8,806	(123)	415,995
Other debt securities	175,091	3,731		178,822
Total debt securities	6,267,354	47,961	(82,641)	6,232,674
Equity securities and mutual funds	337	8,106		8,443
Total securities available-for-sale	\$ 6,267,691	\$ 56,067	\$ (82,641)	\$ 6,241,117
<b>Securities held-to-maturity (1):</b>				
Federal agency - Debt	\$ 178,413	\$ 133	\$ (5,122)	\$ 173,424

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Federal agency - MBS	445,360	1,005	(11,930)	434,435
CMOs - Federal agency	1,781,219	1,839	(40,621)	1,742,437
State and municipal	454,155	421	(19,014)	435,562
Other debt securities	98,696		(619)	98,077
Total securities held-to-maturity	\$ 2,957,843	\$ 3,398	\$ (77,306)	\$ 2,883,935

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

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

Proceeds from sales of securities available-for-sale were \$1.0 million and \$627.1 million for the three and nine months ended September 30, 2014, respectively, compared with \$584.7 million and \$1.84 billion for the three and nine months ended September 30, 2013. There were no sales of securities held-to-maturity during the three and nine months ended September 30, 2014 and 2013. The following table provides the gross realized gains and losses on the sales and calls of securities (including trading securities):

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Gross realized gains	\$ 19	\$ 17,533	\$ 7,989	\$ 24,369
Gross realized losses	(5)	(11,745)	(486)	(11,745)
Net realized gains	\$ 14	\$ 5,788	\$ 7,503	\$ 12,624

Interest income on securities for the three months ended September 30, 2014 and 2013 is comprised of: (i) taxable interest income of \$37.5 million and \$35.5 million, respectively, (ii) nontaxable interest income of \$6.4 million and \$4.5 million, respectively, and (iii) dividend income of \$22 thousand and \$19 thousand, respectively. Interest income on securities for the nine months ended September 30, 2014 and 2013 is comprised of: (i) taxable interest income of \$111.0 million and \$112.1 million, respectively, (ii) nontaxable interest income of \$17.9 million and \$13.3 million, respectively, and (iii) dividend income of \$47 thousand and \$0.1 million, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at September 30, 2014, except for maturities of mortgage-backed securities which are allocated according to the average life of expected cash flows. Average expected maturities will differ from contractual maturities because of the amortizing nature of the loan collateral and prepayment behavior of borrowers.

(in thousands)	One year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	Total
<b>Securities available-for-sale:</b>					
U.S. Treasury	\$ 23,134	\$ 23,631	\$	\$	\$ 46,765
Federal agency - Debt	188,384	1,099,385	38,959		1,326,728
Federal agency - MBS		89,263	17,713		106,976
CMOs - Federal agency	70,795	3,218,376	269,907		3,559,078
CMOs - Non-agency	1,853	23,429			25,282
State and municipal	131,825	246,842		3,326	381,993
Other	88,678	88,364			177,042
Total debt securities available-for-sale	\$ 504,669	\$ 4,789,290	\$ 326,579	\$ 3,326	\$ 5,623,864
Amortized cost	\$ 501,637	\$ 4,801,098	\$ 335,138	\$ 3,400	\$ 5,641,273
<b>Securities held-to-maturity:</b>					
Federal agency - Debt	\$	\$	\$ 93,517	\$ 203,383	\$ 296,900
Federal agency - MBS		84,998	492,868	4,499	582,365
CMOs - Federal agency		720,174	1,127,481		1,847,655
State and municipal		103,459	449,877	72,524	625,860
Other		97,771			97,771

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Total debt securities held-to-maturity at amortized cost	\$	\$	1,006,402	\$	2,163,743	\$	280,406	\$	3,450,551
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**Note 3. Securities (Continued)**

*Impairment Assessment*

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

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

*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, 2014, respectively. Impairment losses of \$0.1 million and \$0.3 million were recognized in earnings for the three and nine months ended September 30, 2013. The Company recognized \$0.2 million of non-credit-related other-than-temporary impairment in accumulated other comprehensive income or loss ( AOCI ) on non-agency CMO securities classified as available-for-sale at September 30, 2014. There was no non-credit related other-than-temporary impairment recognized in AOCI on securities available-for-sale at September 30, 2013. No impairment losses were recognized in earnings or AOCI for securities held-to-maturity during the three and nine months ended September 30, 2014 and 2013.

The following table summarizes the changes in cumulative credit-related other-than-temporary impairment recognized in earnings for debt securities for the three and nine months ended September 30, 2014 and 2013. Credit-related other-than-temporary impairment that was recognized in earnings is reflected as an Initial credit-related impairment if the period reported is the first time the security had a credit impairment. A credit-related other-than-temporary impairment is reflected as a Subsequent credit-related impairment if the period reported is not the first time the security had a credit impairment. Cumulative impairment is reduced for securities with previously recognized credit-related impairment that were sold or redeemed during the period. Cumulative impairment is further adjusted for other changes in expected cash flows.

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(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Balance, beginning of period	\$ 2,395	\$ 3,654	\$ 4,549	\$ 16,486
Subsequent credit-related impairment	75	144	323	326
Reduction for securities sold or redeemed			(2,402)	(12,761)
Reduction for increase in expected cash flows on securities for which OTTI was previously recognized		(421)		(674)
Balance, end of period	\$ 2,470	\$ 3,377	\$ 2,470	\$ 3,377

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

The following table provides a summary of the gross unrealized losses and fair value of investment securities that are not deemed to be other-than-temporarily impaired aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position as of September 30, 2014 and December 31, 2013. The table also includes investment securities that had both a credit-related impairment recognized in earnings and a non-credit-related impairment recognized in AOCI.

(in thousands)	Less than 12 months		12 months or greater		Total	
	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
<b>September 30, 2014</b>						
<b>Securities available-for-sale:</b>						
Federal agency - Debt	\$ 844,088	\$ 1,412	\$ 271,824	\$ 2,332	\$ 1,115,912	\$ 3,744
Federal agency - MBS	17,748	64	40,660	1,778	58,408	1,842
CMOs - Federal agency	651,362	3,535	1,270,590	44,255	1,921,952	47,790
CMOs - Non-agency	1,983	3	12,979	364	14,962	367
State and municipal			4,164	86	4,164	86
Total securities available-for-sale	\$ 1,515,181	\$ 5,014	\$ 1,600,217	\$ 48,815	\$ 3,115,398	\$ 53,829
<b>Securities held-to-maturity:</b>						
Federal agency - Debt	\$ 25,034	\$ 22	\$ 72,829	\$ 1,132	\$ 97,863	\$ 1,154
Federal agency - MBS	119,935	726	122,965	4,460	242,900	5,186
CMOs - Federal agency	743,948	12,015	353,787	11,003	1,097,735	23,018
State and municipal	22,365	124	119,691	2,801	142,056	2,925
Other debt securities	79,147	190			79,147	190
Total securities held-to-maturity	\$ 990,429	\$ 13,077	\$ 669,272	\$ 19,396	\$ 1,659,701	\$ 32,473
<b>December 31, 2013</b>						
<b>Securities available-for-sale:</b>						
Federal agency - Debt	\$ 1,026,142	\$ 7,911			\$ 1,026,142	\$ 7,911
Federal agency - MBS	17,962	85	43,492	2,703	61,454	2,788
CMOs - Federal agency	1,637,994	35,922	728,101	34,849	2,366,095	70,771
CMOs - Non-agency	10,056	319	8,483	729	18,539	1,048
State and municipal	16,521	39	4,266	84	20,787	123
Total securities available-for-sale	\$ 2,708,675	\$ 44,276	\$ 784,342	\$ 38,365	\$ 3,493,017	\$ 82,641
<b>Securities held-to-maturity:</b>						
Federal agency - Debt	\$ 156,290	\$ 5,122			\$ 156,290	\$ 5,122
Federal agency - MBS	321,090	10,513	15,338	1,417	336,428	11,930
CMOs - Federal agency	1,539,464	36,435	63,276	4,186	1,602,740	40,621
State and municipal	347,305	14,190	41,102	4,824	388,407	19,014
Other debt securities	98,077	619			98,077	619
Total securities held-to-maturity	\$ 2,462,226	\$ 66,879	\$ 119,716	\$ 10,427	\$ 2,581,942	\$ 77,306

At September 30, 2014, the Company had \$3.12 billion of securities available-for-sale and \$1.66 billion of securities held-to-maturity in an unrealized loss position. The debt securities in an unrealized loss position totaled 497 and included 49 federal agency debt securities, 44 federal

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agency MBS securities, 145 federal agency CMOs, 3 non-agency CMOs, 249 state and municipal securities and 7 other debt securities.

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



Table of Contents**Note 4. Other Investments***FHLB and FRB Stock*

The Company's investment in stock issued by the FHLB and FRB totaled \$58.4 million and \$64.4 million at September 30, 2014 and December 31, 2013, respectively. Ownership of government agency securities is restricted to member banks, and the securities do not have readily determinable market values. The Company records investments in FHLB and FRB stock at cost in Other assets of the consolidated balance sheets and evaluates these investments for impairment. The Company expects to recover the full amount invested in FHLB and FRB stock.

*Private Equity and Alternative Investments*

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 \$29.0 million at September 30, 2014 and \$34.0 million at December 31, 2013. A summary of investments by fund type is provided below:

(in thousands) Fund Type	September 30, 2014	December 31, 2013
Private equity and venture capital	\$ 18,284	\$ 20,298
Real estate	7,114	7,646
Hedge	1,684	2,733
Other	1,895	3,275
Total	\$ 28,977	\$ 33,952

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 no impairment losses on other investments during the three and nine months ended September 30, 2014. 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.

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

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

**Loans and Leases**

(in thousands) (1)	September 30, 2014	December 31, 2013
Commercial	\$ 8,612,691	\$ 7,562,300
Commercial real estate mortgages	3,565,188	3,223,001
Residential mortgages	5,023,213	4,554,311
Real estate construction	585,232	367,004
Home equity loans and lines of credit	759,258	709,344
Installment	178,803	151,955
Lease financing	623,603	602,523
Loans and leases, excluding covered loans	19,347,988	17,170,438
Less: Allowance for loan and lease losses	(312,703)	(302,584)
Loans and leases, excluding covered loans, net	19,035,285	16,867,854
Covered loans	552,715	716,911
Less: Allowance for loan losses	(9,368)	(15,922)
Covered loans, net	543,347	700,989
Total loans and leases	\$ 19,900,703	\$ 17,887,349
Total loans and leases, net	\$ 19,578,632	\$ 17,568,843

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

The loan amounts above include unamortized fees, net of deferred costs, of \$0.8 million and \$2.3 million as of September 30, 2014 and December 31, 2013, respectively.

Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company's lending activities are predominantly in California, and to a lesser extent, New York, the Company has various specialty lending businesses that lend to businesses located throughout the United States of America. Excluding covered loans, at September 30, 2014, California represented 74 percent of total loans outstanding and New York represented 9 percent. The remaining 17 percent of total loans outstanding represented other states. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of Southern California. Credit performance also depends, to a lesser extent, on economic conditions in the San Francisco Bay area and New York.

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Within the Company's covered loan portfolio at September 30, 2014, the five states with the largest concentration were California (32 percent), Texas (12 percent), Nevada (7 percent), Arizona (6 percent) and Ohio (6 percent). The remaining 37 percent of total covered loans outstanding represented other states.

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

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements. Covered loans were \$552.7 million as of September 30, 2014 and \$716.9 million as of December 31, 2013. Covered loans, net of allowance for loan losses, were \$543.3 million at September 30, 2014 and \$701.0 million at December 31, 2013.

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

(in thousands)	September 30, 2014	December 31, 2013
Commercial	\$ 2,273	\$ 10,009
Commercial real estate mortgages	522,883	666,628
Residential mortgages	5,203	4,976
Real estate construction	19,016	31,184
Home equity loans and lines of credit	3,089	3,695
Installment	251	419
Covered loans	552,715	716,911
Less: Allowance for loan losses	(9,368)	(15,922)
Covered loans, net	\$ 543,347	\$ 700,989

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

(in thousands)	Imperial Capital Bank	1st Pacific Bank	Sun West Bank	Nevada Commerce Bank	Total
<b>Covered loans as of:</b>					
September 30, 2014	\$ 492,445	\$ 24,748	\$ 13,025	\$ 22,497	\$ 552,715
December 31, 2013	630,754	40,110	18,761	27,286	716,911
<b>As of September 30, 2014:</b>					
FDIC indemnification asset	\$ 51,074	\$ 2,431	\$ 3,105	\$ 3,307	\$ 59,917
FDIC clawback liability		12,240	2,131	153	14,524
<b>Expiration date of FDIC loss sharing:</b>					
Commercial (1)	12/31/2016	6/30/2015	6/30/2015	6/30/2016	
Residential	12/31/2019	5/31/2020	5/31/2020	4/30/2021	
<b>Termination date of FDIC loss-sharing agreements:</b>					
Commercial (1)	12/19/2017	5/8/2018	5/29/2018	6/30/2019	
Residential	12/31/2019	5/31/2020	5/31/2020	4/30/2021	

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

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

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

The excess of cash flows expected to be collected over the carrying value of the underlying acquired impaired loans is referred to as the accretable yield. This amount is not reported in the consolidated balance sheets but is accreted into interest income over the remaining estimated lives of the underlying pools of loans. Changes in the accretable yield for acquired impaired loans were as follows for the nine months ended September 30, 2014 and 2013:

(in thousands)	For the nine months ended	
	September 30,	
	2014	2013
Balance, beginning of period	\$ 219,018	\$ 295,813
Accretion	(36,067)	(49,395)
Reclassifications from nonaccretable difference	25,636	26,990
Disposals and other	(28,628)	(40,959)
Balance, end of period	\$ 179,959	\$ 232,449

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 difference may vary from period to period as the Company periodically updates its cash flow projections. The reclassification of nonaccretable difference to accretable yield during 2014 was principally driven by positive changes in cash flows, resulting mainly from changes in credit assumptions.

The Company recorded an indemnification asset related to its FDIC-assisted acquisitions, which represents the present value of the expected reimbursement from the FDIC for expected losses on acquired loans, OREO and unfunded commitments. The difference between the carrying value of the FDIC indemnification asset and the undiscounted cash flow that the Company expects to collect from the FDIC is accreted or amortized into noninterest income up until the expiration date of the FDIC loss sharing. Refer to the preceding table for a list of expiration dates of FDIC loss sharing by acquired entity. The FDIC indemnification asset is reviewed on a quarterly basis and adjusted based on changes in cash flow projections. The FDIC indemnification asset from all FDIC-assisted acquisitions was \$59.9 million at September 30, 2014 and \$89.2 million at December 31, 2013.

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

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

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

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

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

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

A portion of the allowance for loan and lease losses is attributed to impaired loans that are individually measured for impairment. This measurement is based on the present value of expected future cash flows discounted using the loan's contractual effective rate, the fair value of collateral or the secondary market value of the loan.

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



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

The following is a summary of activity in the allowance for loan and lease losses and period-end recorded investment balances of loans evaluated for impairment, excluding covered loans, for the three and nine months ended September 30, 2014 and 2013. Activity is provided by loan portfolio segment which is consistent with the Company's methodology for determining the allowance for loan and lease losses.

(in thousands)	Commercial (1)	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Home Equity Loans and Lines of Credit	Installment	Qualitative	Total
<b>Three months ended September 30, 2014</b>								
<b>Allowance for loan and lease losses:</b>								
Beginning balance	\$ 126,279	\$ 50,651	\$ 10,296	\$ 7,191	\$ 6,575	\$ 2,284	\$ 108,000	\$ 311,276
Charge-offs	(3,773)					(76)		(3,849)
Recoveries	6,202	225	33	7,729	52	158		14,399
Net recoveries	2,429	225	33	7,729	52	82		10,550
(Reversal of) provision for credit losses	(5,762)	113	1,138	(6,175)	401	18	2,267	(8,000)
Transfers to reserve for off-balance sheet credit commitments							(1,123)	(1,123)
Ending balance	\$ 122,946	\$ 50,989	\$ 11,467	\$ 8,745	\$ 7,028	\$ 2,384	\$ 109,144	\$ 312,703
<b>Nine months ended September 30, 2014</b>								
<b>Allowance for loan and lease losses:</b>								
Beginning balance	\$ 117,103	\$ 50,678	\$ 11,540	\$ 6,351	\$ 6,677	\$ 1,842	\$ 108,393	\$ 302,584
Charge-offs	(18,594)	(5)	(482)		(165)	(264)		(19,510)
Recoveries	15,437	352	258	12,804	254	1,490		30,595
Net (charge-offs) recoveries	(3,157)	347	(224)	12,804	89	1,226		11,085
(Reversal of) provision for credit losses	(353)	(36)	151	(10,410)	262	(684)	2,070	(9,000)
Transfers from (to) reserve for off-balance sheet credit commitments	9,353						(1,319)	8,034
Ending balance	\$ 122,946	\$ 50,989	\$ 11,467	\$ 8,745	\$ 7,028	\$ 2,384	\$ 109,144	\$ 312,703
<b>Ending balance of allowance:</b>								
Individually evaluated for impairment	\$ 1,304	\$ 291	\$	\$	\$	\$	\$	\$ 1,595
Collectively evaluated for impairment	121,642	50,698	11,467	8,745	7,028	2,384	109,144	311,108
<b>Loans and leases, excluding covered loans</b>								
<b>Ending balance of loans and leases:</b>								
Loans and leases, excluding covered loans	\$ 9,236,294	\$ 3,565,188	\$ 5,023,213	\$ 585,232	\$ 759,258	\$ 178,803	\$	\$ 19,347,988
Individually evaluated for impairment	16,316	25,551	7,785	6,610	2,313			58,575
	9,219,978	3,539,637	5,015,428	578,622	756,945	178,803		19,289,413

Collectively evaluated for  
impairment

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(1) Includes lease financing loans.

Table of Contents**Note 5. 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	Qualitative	Total
<b>Three months ended September 30, 2013</b>								
<b>Allowance for loan and lease losses:</b>								
Beginning balance	\$ 116,619	\$ 53,339	\$ 8,004	\$ 8,335	\$ 5,400	\$ 1,355	\$ 96,862	\$ 289,914
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
(Reversal of) provision for credit losses	(14,173)	(2,829)	5,070	(1,589)	3,092	317	10,112	
Transfers to reserve for off-balance sheet credit commitments							(749)	(749)
Ending balance	\$ 106,821	\$ 49,926	\$ 13,114	\$ 9,691	\$ 8,298	\$ 1,872	\$ 106,225	\$ 295,947
<b>Nine months ended September 30, 2013</b>								
<b>Allowance for loan and lease losses:</b>								
Beginning balance	\$ 104,731	\$ 48,901	\$ 10,558	\$ 11,784	\$ 7,283	\$ 1,858	\$ 92,773	\$ 277,888
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	9,403	453	9	8,293	69	868		19,095
(Reversal of) provision for credit losses	(7,313)	572	2,547	(10,386)	946	(854)	14,488	
Transfers to reserve for off-balance sheet credit commitments							(1,036)	(1,036)
Ending balance	\$ 106,821	\$ 49,926	\$ 13,114	\$ 9,691	\$ 8,298	\$ 1,872	\$ 106,225	\$ 295,947
<b>Ending balance of allowance:</b>								
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
<b>Loans and leases, excluding covered loans</b>								
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.

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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, 2014 and 2013:

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Balance, beginning of period	\$ 24,787	\$ 25,124	\$ 33,944	\$ 24,837
Transfers from (to) allowance for loan and lease losses	1,123	749	(8,034)	1,036
Balance, end of period	\$ 25,910	\$ 25,873	\$ 25,910	\$ 25,873

The reserve for off-balance sheet credit commitments increased \$1.1 million and decreased \$8.0 million during the three and nine months ended September 30, 2014, respectively. The year to date decrease was primarily due to the conversion of an undrawn letter of credit that had a specific reserve to an on-balance sheet loan, and normal fluctuations in the amount of reserves required due to changes in the composition, amount and quality of risk ratings of borrowers associated with the off-balance sheet commitments. Increases and decreases in the reserve for off-balance sheet credit commitments are reflected as an allocation of provision expense from or to the allowance for loan and lease losses.

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

The Company considers a loan to be impaired when it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement. Once a loan is determined to be impaired, the impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate, except that if the loan is collateral dependent, the impairment is measured by using the fair value of the loan's collateral. As a final alternative, the observable market price of the debt may be used to assess impairment. Nonperforming loans greater than \$1 million are individually evaluated for impairment based upon the borrower's overall financial condition, resources, and payment record, and the prospects for support from any financially responsible guarantors. Loans under \$1 million are measured for impairment using historical loss factors. When the measurement of the impaired loan is less than the recorded amount of the loan, an impairment is recognized by creating a valuation allowance with a corresponding charge to the allowance for loan and lease losses or by adjusting an existing valuation allowance for the impaired loan.

Information on impaired loans, excluding covered loans, at September 30, 2014, December 31, 2013 and September 30, 2013 is provided in the following tables:

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	For the three months ended September 30, 2014		For the nine months ended September 30, 2014	
				Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>September 30, 2014</b>							
With no related allowance recorded:							
Commercial	\$ 6,653	\$ 6,684	\$	\$ 6,817	\$ 38	\$ 10,653	\$ 205
Commercial real estate mortgages	20,347	22,698		24,290	219	29,478	903
Residential mortgages:							
Fixed	2,015	2,254		3,406	10	3,459	30
Variable	5,770	5,885		3,784	40	3,997	68
Total residential mortgages	7,785	8,139		7,190	50	7,456	98
Real estate construction:							
Construction						2,742	76
Land	6,610	8,758		9,728	35	11,593	104
Total real estate construction	6,610	8,758		9,728	35	14,335	180
Home equity loans and lines of credit	2,313	3,375		2,874		2,881	
Installment:							
Consumer					1	4	1
Total installment					1	4	1
Total with no related allowance	\$ 43,708	\$ 49,654	\$	\$ 50,899	\$ 343	\$ 64,807	\$ 1,387
With an allowance recorded:							
Commercial	\$ 9,663	\$ 12,134	\$ 1,304	\$ 15,957	\$	\$ 15,869	\$
Commercial real estate mortgages	5,204	5,557	291	5,214	73	5,293	191
Residential mortgages:							
Variable				2,000		1,419	11
Total residential mortgages				2,000		1,419	11
Installment:							
Consumer				25		12	1
Total installment				25		12	1
Total with an allowance	\$ 14,867	\$ 17,691	\$ 1,595	\$ 23,196	\$ 73	\$ 22,593	\$ 203

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Total impaired loans by type:

Commercial	\$	16,316	\$	18,818	\$	1,304	\$	22,774	\$	38	\$	26,522	\$	205
Commercial real estate mortgages		25,551		28,255		291		29,504		292		34,771		1,094
Residential mortgages		7,785		8,139				9,190		50		8,875		109
Real estate construction		6,610		8,758				9,728		35		14,335		180
Home equity loans and lines of credit		2,313		3,375				2,874				2,881		
Installment								25		1		16		2
Total impaired loans	\$	58,575	\$	67,345	\$	1,595	\$	74,095	\$	416	\$	87,400	\$	1,590

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

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

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

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	For the three months ended September 30, 2013		For the nine months ended September 30, 2013	
				Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>September 30, 2013</b>							
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

Impaired loans at September 30, 2014 and December 31, 2013 included \$32.0 million and \$42.1 million, respectively, of loans that are on accrual status. With the exception of restructured loans on accrual status and a limited number of loans on cash basis nonaccrual for which the full collection of principal and interest is expected, interest income is not recognized on impaired loans until the principal balance of these loans is paid off.



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

There were no loans modified in a troubled debt restructuring during the three months ended September 30, 2014. The following table provides a summary of loans modified in a troubled debt restructuring during the three months ended September 30, 2013:

(in thousands)	Number of Contracts	Pre-Modification Outstanding Principal	Period-End Outstanding Principal	Financial Effects (1)
<b>Three months ended September 30, 2013</b>				
Commercial	2	\$ 7,575	\$ 7,486	\$ 344
Total troubled debt restructured loans	2	\$ 7,575	\$ 7,486	\$ 344

(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, 2014 and 2013:

(in thousands)	Number of Contracts	Pre-Modification Outstanding Principal	Period-End Outstanding Principal	Financial Effects (1)
<b>Nine months ended September 30, 2014</b>				
Commercial	2	\$ 4,098	\$ 3,799	\$
Residential mortgages:				
Variable	2	4,676	4,647	5
Installment:				
Consumer	1	50		50
Total troubled debt restructured loans	5	\$ 8,824	\$ 8,446	\$ 55
<b>Nine months ended September 30, 2013</b>				
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

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

A restructuring constitutes a troubled debt restructuring when a lender, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Loans with pre-modification outstanding balances totaling \$8.8 million were

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modified in troubled debt restructurings during the nine months ended September 30, 2014. 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. The concessions granted in the restructurings completed in 2014 consisted of maturity extensions and rate modifications.

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

The unpaid principal balance of troubled debt restructured ( TDR ) loans was \$35.9 million, before specific reserves of \$0.9 million, at September 30, 2014 and \$52.2 million, before specific reserves of \$0.8 million, at December 31, 2013. The net decrease in TDR loans from the prior year-end was primarily attributable to payoffs and payments received on existing TDR loans totaling \$25.9 million and the removal of \$0.5 million of loans that were restructured in an A/B note structure in prior year that are no longer reported as TDRs. These decreases were partially offset by additions totaling \$8.8 million and advances on existing TDR loans totaling \$1.5 million. 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.

The Company had no TDR loans that subsequently defaulted during the three and nine months ended September 30, 2014, and no TDR loans that subsequently defaulted during the three months ended September 30, 2013. The following table provides a summary of TDR loans that subsequently defaulted during the nine months ended September 30, 2013, that had been modified as a troubled debt restructuring during the 12 months prior to their default. A TDR loan is considered to be in default when payments are 90 days or more past due.

(in thousands)	For nine months ended September 30, 2013		
	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	\$

All TDR loans were performing in accordance with their restructured terms at September 30, 2014. As of September 30, 2014, commitments to lend additional funds on restructured loans totaled \$0.2 million.

*Past Due and Nonaccrual Loans and Leases*

Loans are considered past due following the date when either interest or principal is contractually due and unpaid. The following tables provide a summary of past due and nonaccrual loans, excluding covered loans, at September 30, 2014 and December 31, 2013 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
<b>September 30, 2014</b>							
Commercial	\$ 4,017	\$ 2,971	\$	\$ 14,578	\$ 21,566	\$ 8,591,125	\$ 8,612,691
Commercial real estate mortgages	265	501		3,691	4,457	3,560,731	3,565,188
Residential mortgages:							

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Fixed	3,625	6,145	3,911	13,681	1,410,232	1,423,913
Variable	5,259		2,257	7,516	3,591,784	3,599,300
Total residential mortgages	8,884	6,145	6,168	21,197	5,002,016	5,023,213
Real estate construction:						
Construction					565,507	565,507
Land			6,598	6,598	13,127	19,725
Total real estate construction			6,598	6,598	578,634	585,232
Home equity loans and lines of credit	100	1,972	387	4,776	7,235	759,258
Installment:						
Commercial					303	303
Consumer	280	85	292	42	699	178,500
Total installment	280	85	292	42	699	178,803
Lease financing	63	18		66	147	623,603
Total	\$ 4,725	\$ 14,431	\$ 6,824	\$ 35,919	\$ 61,899	\$ 19,286,089
						\$ 19,347,988

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

(in thousands) (1)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
<b>December 31, 2013</b>							
Commercial	\$ 6,582	\$ 362	\$	\$ 14,248	\$ 21,192	\$ 7,541,108	\$ 7,562,300
Commercial real estate mortgages	1,197	1,633		18,449	21,279	3,201,722	3,223,001
Residential mortgages:							
Fixed			379	3,789	4,168	1,436,283	1,440,451
Variable				7,872	7,872	3,105,988	3,113,860
Total residential mortgages			379	11,661	12,040	4,542,271	4,554,311
Real estate construction:							
Construction				5,467	5,467	332,131	337,598
Land		797		13,600	14,397	15,009	29,406
Total real estate construction		797		19,067	19,864	347,140	367,004
Home equity loans and lines of credit			74	5,144	5,218	704,126	709,344
Installment:							
Commercial	1				1	361	362
Consumer	10	7		32	49	151,544	151,593
Total installment	11	7		32	50	151,905	151,955
Lease financing	401	126		50	577	601,946	602,523
Total	\$ 8,191	\$ 2,925	\$ 453	\$ 68,651	\$ 80,220	\$ 17,090,218	\$ 17,170,438

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

*Credit Quality Monitoring*

The Company closely monitors and assesses credit quality and credit risk in the loan and lease portfolio on an ongoing basis. Loan risk classifications are continuously reviewed and updated. The following table provides a summary of the loan and lease portfolio, excluding covered loans, by loan type and credit quality classification as of September 30, 2014 and December 31, 2013. Nonclassified loans generally include those loans that are expected to be repaid in accordance with contractual loan terms. Classified loans are those loans that are classified as substandard or doubtful consistent with regulatory guidelines.

(in thousand)

September 30, 2014

December 31, 2013