CITY NATIONAL CORP
Form 10-Q
November 07, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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

For the transition period from to

Commission file number 1-10521

CITY NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

City National Plaza

555 South Flower Street, Los Angeles, California, 90071

(Address of principal executive offices)(Zip Code)

(213) 673-7700

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITY NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)		September 30, 2014 (Unaudited)		December 31, 2013
Assets				
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
Liabilities				
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

Acceptances outstanding	2,137	10,521
Other liabilities	448,853	473,438
Total liabilities	29,068,949	26,937,197
Redeemable noncontrolling interest	47,222	39,768
Commitments and contingencies		
Shareholders equity		
Preferred stock, par value $1.00 per share; 5,000,000 shares authorized; 275,000 shares issued at 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.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share amounts)	For the three months ended September 30, 2014	2013	For the nine months ended September 30, 2014	2013
Interest income				
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
Interest expense				
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
Net interest income	215,776	214,271	634,676	618,263
(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
Noninterest income				
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
Noninterest expense				
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

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
Net income	$	69,498	$	64,242	$	191,919	$	176,554
Less: Net income attributable to noncontrolling interest		847		609		2,056		1,657
Net income attributable to City National Corporation	$	68,651	$	63,633	$	189,863	$	174,897
Less: Dividends on preferred stock		4,093		2,407		12,281		7,219
Net income available to common shareholders	$	64,558	$	61,226	$	177,582	$	167,678
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.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)	For the three months ended September 30, 2014	2013	For the nine months ended September 30, 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.

Table of Contents

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	For the nine months ended September 30, 2014	2013
Cash Flows From Operating Activities		
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
Cash Flows From Investing Activities		
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
Cash Flows From Financing Activities		
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
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 48,019	$ 56,100

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.

Table of Contents

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.

Table of Contents

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

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.

Table of Contents

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 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.

Table of Contents

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)	Balance as of September 30, 2014	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Measured on a Recurring Basis				
Assets				
Securities available-for-sale:				
U.S. Treasury	$ 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
Total assets at fair value	$ 5,797,596	$ 179,036	$ 5,611,426	$ 7,134
Liabilities				
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	
Total liabilities at fair value (2)	$ 89,381	$ 5,735	$ 34,629	$ 49,017
Redeemable noncontrolling interest	$ 47,222	$	$	$ 47,222
Measured on a Nonrecurring Basis				

Assets				
Other real estate owned (3)	$ 8,101	$	$	$ 8,101
Total assets at fair value	$ 8,101	$	$	$ 8,101

(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)	Balance as of December 31, 2013	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Measured on a Recurring Basis				
Assets				
Securities available-for-sale:				
U.S. Treasury	$ 35,335	$ 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	
Total assets at fair value	$ 6,358,087	$ 127,924	$ 6,226,530	$ 3,633
Liabilities				
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	
Total liabilities at fair value (2)	$ 95,881	$ 3,333	$ 30,681	$ 61,867
Redeemable noncontrolling interest	$ 39,768	$	$	$ 39,768
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Commercial real estate mortgages	$ 1,220	$	$	$ 1,220
Residential mortgages	1,300			1,300
Other real estate owned (4)	18,251			18,251
Private equity and alternative investments	895			895
Total assets at fair value	$ 21,666	$	$	$ 21,666

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

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

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

(4) Includes covered OREO.

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 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

	For the nine months ended September 30, 2014				
(in thousands)	**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)

	For the nine months ended September 30, 2013		
(in thousands)	**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 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 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, 2014	2013	For the nine months ended September 30, 2014	2013
Collateral dependent impaired loans:				
Commercial real estate mortgages	$	$ (934)	$ (5)	$ (641)
Residential mortgages	7	(2)	81	(224)
Home equity loans and lines of credit				116
Installment				(138)
Other real estate owned (1)	(283)	(364)	784	(5,075)
Private equity and alternative investments		(109)		(508)
Total net gains (losses) recognized	$ (276)	$ (1,409)	$ 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.

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.

			September 30, 2014		
	Carrying	Total	Fair Value Measurements Using		
(in millions)	**Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
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	
Financial Liabilities:					
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

			December 31, 2013		
	Carrying	Total	Fair Value Measurements Using		
(in millions)	**Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and due from banks	$ 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	
Financial Liabilities:					
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:

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.

Table of Contents

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
September 30, 2014				
Securities available-for-sale:				
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
Securities held-to-maturity (1):				
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
December 31, 2013				
Securities available-for-sale:				
U.S. Treasury	$ 35,312	$ 23	$	$ 35,335
Federal agency - Debt	1,417,509	938	(7,911)	1,410,536
Federal agency - MBS	156,399	3,615	(2,788)	157,226
CMOs - Federal agency	4,037,348	30,721	(70,771)	3,997,298
CMOs - Non-agency	38,383	127	(1,048)	37,462
State and municipal	407,312	8,806	(123)	415,995
Other debt securities	175,091	3,731		178,822
Total debt securities	6,267,354	47,961	(82,641)	6,232,674
Equity securities and mutual funds	337	8,106		8,443
Total securities available-for-sale	$ 6,267,691	$ 56,067	$ (82,641)	$ 6,241,117
Securities held-to-maturity (1):				
Federal agency - Debt	$ 178,413	$ 133	$ (5,122)	$ 173,424

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

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

Table of Contents

Note 3. Securities (Continued)

Proceeds from sales of securities available-for-sale were $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, 2014	For the three months ended September 30, 2013	For the nine months ended September 30, 2014	For the nine months ended September 30, 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
Securities available-for-sale:					
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
Securities held-to-maturity:					
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

Total debt securities held-to-maturity at amortized cost	$	$ 1,006,402	$ 2,163,743	$ 280,406	$ 3,450,551

Table of Contents

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.

(in thousands)	For the three months ended September 30, 2014	2013	For the nine months ended September 30, 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.

	Less than 12 months		12 months or greater		Total	
(in thousands)	**Fair Value**	**Estimated Unrealized Loss**	**Fair Value**	**Estimated Unrealized Loss**	**Fair Value**	**Estimated Unrealized Loss**
September 30, 2014						
Securities available-for-sale:						
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
Securities held-to-maturity:						
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
December 31, 2013						
Securities available-for-sale:						
Federal agency - Debt	$ 1,026,142	$ 7,911	$	$	$ 1,026,142	$ 7,911
Federal agency - MBS	17,962	85	43,492	2,703	61,454	2,788
CMOs - Federal agency	1,637,994	35,922	728,101	34,849	2,366,095	70,771
CMOs - Non-agency	10,056	319	8,483	729	18,539	1,048
State and municipal	16,521	39	4,266	84	20,787	123
Total securities available-for-sale	$ 2,708,675	$ 44,276	$ 784,342	$ 38,365	$ 3,493,017	$ 82,641
Securities held-to-maturity:						