CITY NATIONAL CORP
Form 10-Q
November 12, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 1-10521

CITY NATIONAL CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

City National Plaza

555 South Flower Street, Los Angeles, California, 90071

(Address of principal executive offices)(Zip Code)

(213) 673-7700

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITY NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

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

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

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

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

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

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

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

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

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(in thousands, except share amounts)	Common shares issued	Preferred stock	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Total shareholders equity
Balance, January 1, 2012	53,885,886	$	$ 53,886	$ 489,200	$ 72,372	$ 1,611,969	$ (82,578)	$ 2,144,849
Net income (1)						160,803		160,803
Other comprehensive income, net of tax					21,552			21,552
Issuance of shares under share-based compensation plans				(27,171)			46,698	19,527
Share-based employee compensation expense				12,825				12,825
Tax benefit from share-based compensation plans				953				953
Common stock dividends						(40,355)		(40,355)
Net change in deferred compensation plans				787			2	789
Change in redeemable noncontrolling interest				1,033				1,033
Other (2)				8,348				8,348
Balance, September 30, 2012	53,885,886	$	$ 53,886	$ 485,975	$ 93,924	$ 1,732,417	$ (35,878)	$ 2,330,324
Balance, January 1, 2013	53,885,886	$ 169,920	$ 53,886	$ 490,339	$ 86,582	$ 1,738,957	$ (34,366)	$ 2,505,318
Net income (1)						174,897		174,897
Other comprehensive loss, net of tax					(96,937)			(96,937)
Issuance of shares under share-based compensation plans	514,161		514	11,742			9,290	21,546
Share-based employee compensation expense				13,241				13,241
Tax benefit from share-based compensation plans				3,646				3,646
Dividends:								
Preferred						(7,219)		(7,219)
Common						(27,395)		(27,395)
Net change in deferred compensation plans				773			(1)	772
Change in redeemable noncontrolling interest				19				19
Balance, September 30, 2013	54,400,047	$ 169,920	$ 54,400	$ 519,760	$ (10,355)	$ 1,879,240	$ (25,077)	$ 2,587,888

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

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

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

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

Consolidation

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

The Company s investment management and wealth advisory affiliates are organized as limited liability companies. The Corporation generally owns a majority position in each affiliate and certain management members of each affiliate own the remaining shares. The Corporation has contractual arrangements with its affiliates whereby a percentage of revenue is allocable to fund affiliate operating expenses (operating share) while the remaining portion of revenue (distributable revenue) is allocable to the Corporation and the noncontrolling owners. All majority-owned affiliates that meet the prescribed criteria for consolidation are consolidated. The Corporation s interests in investment management affiliates in which it holds a noncontrolling share are accounted for using the equity method. Additionally, the Company has various interests in variable interest entities (VIEs) that are not required to be consolidated. See Note 17 for a more detailed discussion on VIEs.

Use of Estimates

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

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

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Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Company is on the accrual basis of accounting for income and expenses. The results of operations reflect any adjustments, all of which are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q, and which, in the opinion of management, are necessary for a fair presentation of the results for the periods presented. In accordance with the usual practice of banks, assets and liabilities of individual trust, agency and fiduciary funds have not been included in the financial statements. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

The results for the 2013 interim periods are not necessarily indicative of the results expected for the full year. The Company has not made any significant changes in its critical accounting policies or in its estimates and assumptions from those disclosed in its 2012 Annual Report other than the adoption of new accounting pronouncements and other authoritative guidance that became effective for the Company on or after January 1, 2013. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2013.

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

Accounting Pronouncements

The following is a summary of accounting pronouncements that became effective during the nine months ended September 30, 2013:

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

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

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

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Note 1. Summary of Significant Accounting Policies (Continued)

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

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

The following is a summary of recently issued accounting pronouncements:

- In February 2013, the FASB issued ASU 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* (ASU 2013-04). ASU 2013-04 provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements. Examples of obligations within the scope of the ASU include debt arrangements, other contractual obligations and settled litigation. ASU 2013-04 requires entities to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date, as the sum of (1) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors, and (2) any additional amount the reporting entity expects to pay on behalf of its co-obligors. Required disclosures include a description of the joint-and-several arrangement and the total outstanding amount of the obligation for all joint parties. The ASU is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. Adoption of the new guidance is not expected to have a significant impact on the Company s consolidated financial statements.

- In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The new guidance requires an entity to present an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward or tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use and the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the statement of financial position as a liability and should not be combined with deferred tax assets. The ASU is effective for annual periods, and interim periods within those years, beginning after December 15, 2013. Adoption of the new guidance is not expected to have a significant impact on the Company s consolidated financial statements.

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Note 2. Business Combinations

Rochdale Investment Management

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

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

First American Equipment Finance

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

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

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Note 3. Fair Value Measurements

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

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