

CITY NATIONAL CORP
Form 10-Q
August 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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

For the transition period from _____ to _____

Commission file number 1-10521

CITY NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State of Incorporation)

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

City National Plaza

555 South Flower Street, Los Angeles, California, 90071

(Address of principal executive offices)(Zip Code)

(213) 673-7700

(Registrant's telephone number, including area code)

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

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

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

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

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

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

As of July 31, 2015, there were 55,750,611 shares of Common Stock outstanding (including unvested restricted shares).

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CITY NATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in thousands, except share amounts)	June 30, 2015	December 31, 2014
Assets		
Cash and due from banks	\$ 433,629	\$ 336,470
Due from banks - interest-bearing	704,258	119,981
Federal funds sold and securities purchased under resale agreements	200,000	200,000
Securities available-for-sale - cost \$4,943,133 and \$5,894,509 at June 30, 2015 and December 31, 2014, respectively:		
Securities pledged as collateral	10,964	14,654
Held in portfolio	4,929,879	5,868,329
Securities held-to-maturity - fair value \$3,460,942 and \$3,484,647 at June 30, 2015 and December 31, 2014, respectively:		
Securities pledged as collateral	518,952	521,262
Held in portfolio	2,903,227	2,905,769
Trading securities	110,136	173,188
Loans and leases, excluding covered loans	21,929,328	20,337,206
Less: Allowance for loan and lease losses	316,922	310,149
Loans and leases, excluding covered loans, net	21,612,406	20,027,057
Covered loans, net of allowance for loan losses	425,958	502,371
Net loans and leases	22,038,364	20,529,428
Premises and equipment, net	205,507	207,700
Deferred tax asset	237,853	233,811
Goodwill	637,918	635,868
Customer-relationship intangibles, net	32,227	34,831
Affordable housing investments	194,443	186,423
Customers acceptance liability	3,462	17,664
Other real estate owned (\$11,311 and \$12,760 covered by FDIC loss share at June 30, 2015 and December 31, 2014, respectively)	17,268	23,496
FDIC indemnification asset	34,799	50,511
Other assets	547,612	537,847
Total assets	\$ 33,760,498	\$ 32,597,232
Liabilities		
Demand deposits	\$ 19,648,595	\$ 18,030,021
Interest checking deposits	2,462,289	2,736,391
Money market deposits	6,323,160	6,198,798
Savings deposits	483,794	469,931
Time deposits-under \$100,000	147,138	155,568
Time deposits-\$100,000 and over	416,254	517,394
Total deposits	29,481,230	28,108,103
Short-term borrowings	6,322	322,861

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Long-term debt	640,617	638,600
Reserve for off-balance sheet credit commitments	30,024	27,811
Acceptances outstanding	3,462	17,664
Other liabilities	488,940	499,514
Total liabilities	30,650,595	29,614,553
Redeemable noncontrolling interest	37,755	39,978
Commitments and contingencies		
Shareholders' equity		
Preferred stock, par value \$1.00 per share; 5,000,000 shares authorized; 275,000 shares issued at June 30, 2015 and December 31, 2014	267,616	267,616
Common stock, par value \$1.00 per share; 75,000,000 shares authorized; 55,664,127 and 55,162,455 shares issued at June 30, 2015 and December 31, 2014, respectively	55,664	55,162
Additional paid-in capital	615,371	578,046
Accumulated other comprehensive loss	(1,760)	(7,074)
Retained earnings	2,153,871	2,071,230
Treasury shares, at cost - 311,068 and 377,224 shares at June 30, 2015 and December 31, 2014, respectively	(18,614)	(22,279)
Total common shareholders' equity	2,804,532	2,675,085
Total shareholders' equity	3,072,148	2,942,701
Total liabilities and shareholders' equity	\$ 33,760,498	\$ 32,597,232

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 June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Interest income				
Loans and leases	\$ 204,525	\$ 186,999	\$ 388,557	\$ 356,696
Securities	41,196	43,471	83,268	85,046
Due from banks - interest-bearing	433	378	569	820
Federal funds sold and securities purchased under resale agreements	1,134	1,477	2,375	2,848
Total interest income	247,288	232,325	474,769	445,410
Interest expense				
Deposits	1,880	2,060	3,800	4,194
Federal funds purchased and securities sold under repurchase agreements	8		79	
Subordinated debt	3,746	6,117	7,492	12,221
Other long-term debt	5,144	5,046	10,308	10,095
Total interest expense	10,778	13,223	21,679	26,510
Net interest income	236,510	219,102	453,090	418,900
(Reversal of) provision for credit losses on loans and leases, excluding covered loans	10,000	(1,000)	10,000	(1,000)
(Reversal of) provision for losses on covered loans	1,091	(1,461)	1,588	3,194
Net interest income after provision	225,419	221,563	441,502	416,706
Noninterest income				
Trust and investment fees	58,487	54,599	114,008	107,905
Brokerage and mutual fund fees	11,424	14,240	22,022	24,282
Cash management and deposit transaction charges	12,861	12,128	25,494	24,161
International services	11,774	11,483	22,442	21,878
FDIC loss sharing expense, net	(10,808)	(24,161)	(17,496)	(31,244)
Gain on disposal of assets	1,538	6,838	1,648	9,664
Gain on sale of securities	1,924	5,367	5,300	7,489
Other	25,975	20,853	50,897	38,460
Impairment loss on securities:				
Total other-than-temporary impairment loss on securities	(634)	(565)	(699)	(565)
Less: Portion of loss recognized in other comprehensive income	363	317	363	317
Net impairment loss recognized in earnings	(271)	(248)	(336)	(248)
Total noninterest income	112,904	101,099	223,979	202,347
Noninterest expense				
Salaries and employee benefits	144,681	138,859	289,249	275,692
Net occupancy of premises	16,179	16,595	32,252	32,689
Legal and professional fees	17,348	18,393	34,286	31,343
Information services	10,648	9,463	20,508	18,809
Depreciation and amortization	9,508	7,885	24,490	15,713
Amortization of intangibles	1,226	1,454	2,603	2,941
Marketing and advertising	8,938	8,982	17,768	18,757
Office services and equipment	5,102	5,287	10,238	10,197
Other real estate owned	1,094	2,372	3,825	3,805
FDIC assessments	5,276	2,765	10,370	4,156

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Other operating	11,660	9,527	20,513	18,332
Total noninterest expense	231,660	221,582	466,102	432,434
Income before income taxes	106,663	101,080	199,379	186,619
Income taxes	37,684	35,109	68,281	66,119
Net income	\$ 68,979	\$ 65,971	\$ 131,098	\$ 120,500
Less: Net income attributable to noncontrolling interest	480	510	1,033	1,209
Net income attributable to City National Corporation	\$ 68,499	\$ 65,461	\$ 130,065	\$ 119,291
Less: Dividends on preferred stock	4,094	4,094	8,188	8,188
Net income available to common shareholders	\$ 64,405	\$ 61,367	\$ 121,877	\$ 111,103
Net income per common share, basic	\$ 1.15	\$ 1.11	\$ 2.17	\$ 2.01
Net income per common share, diluted	\$ 1.13	\$ 1.09	\$ 2.14	\$ 1.98
Weighted-average common shares outstanding, basic	55,748	54,957	55,586	54,824
Weighted-average common shares outstanding, diluted	56,663	55,632	56,484	55,541
Dividends per common share	\$ 0.35	\$ 0.33	\$ 0.70	\$ 0.66

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 June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Net income	\$ 68,979	\$ 65,971	\$ 131,098	\$ 120,500
Other comprehensive (loss) income, net of tax:				
Securities available-for-sale:				
Net unrealized (losses) gains arising during the period	(6,406)	9,764	7,679	22,317
Reclassification adjustment for net gains included in net income	(178)	(3,117)	(2,147)	(4,392)
Non-credit related impairment loss	(211)	(184)	(211)	(184)
Foreign currency translation adjustments	4		(7)	
Total other comprehensive (loss) income	(6,791)	6,463	5,314	17,741
Comprehensive income	\$ 62,188	\$ 72,434	\$ 136,412	\$ 138,241
Less: Comprehensive income attributable to noncontrolling interest	480	510	1,033	1,209
Comprehensive income attributable to City National Corporation	\$ 61,708	\$ 71,924	\$ 135,379	\$ 137,032

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	For the six months ended	
	2015	June 30, 2014
Cash Flows From Operating Activities		
Net income	\$ 131,098	\$ 120,500
Adjustments to net income:		
(Reversal of) provision for credit losses on loans and leases, excluding covered loans	10,000	(1,000)
Provision for losses on covered loans	1,588	3,194
Depreciation and amortization	24,490	15,713
Amortization of intangibles	2,603	2,941
Share-based employee compensation expense	11,246	10,636
Deferred income tax benefit	(7,905)	(3,492)
Gain on disposal of assets	(1,648)	(9,664)
Gain on sale of securities	(5,300)	(7,489)
Impairment loss on securities	336	248
Other, net	16,367	17,383
Net change in:		
Trading securities	62,949	(3,802)
Other assets and other liabilities, net	(38,204)	(22,392)
Net cash provided by operating activities	207,620	122,776
Cash Flows From Investing Activities		
Purchase of securities available-for-sale	(823,320)	(820,540)
Sales of securities available-for-sale	400,803	626,055
Maturities and paydowns of securities available-for-sale	1,366,066	1,133,677
Purchase of securities held-to-maturity	(148,849)	(537,894)
Maturities and paydowns of securities held-to-maturity	151,613	75,409
Loan originations, net of principal collections	(1,492,182)	(1,171,116)
Net payments for premises and equipment	(22,714)	(22,614)
Other investing activities, net	(140)	19,224
Net cash used in investing activities	(568,723)	(697,799)
Cash Flows From Financing Activities		
Net increase in deposits	1,373,127	972,088
Net (decrease) increase in federal funds purchased	(320,000)	50,000
Issuance of long-term debt	29,609	18,070
Repayment of long-term debt	(24,126)	(19,765)
Proceeds from exercise of stock options	28,996	16,387
Tax benefit from exercise of stock options	5,521	3,240
Cash dividends paid	(47,042)	(44,374)
Other financing activities, net	(3,546)	(16,252)
Net cash provided by financing activities	1,042,539	979,394
Net increase in cash and cash equivalents	681,436	404,371
Cash and cash equivalents at beginning of year	656,451	935,946
Cash and cash equivalents at end of period	\$ 1,337,887	\$ 1,340,317

Supplemental Disclosures of Cash Flow Information:

Cash paid during the period for:

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Interest	\$	21,656	\$	26,484
Income taxes		62,645		55,461
Non-cash investing activities:				
Transfer of loans to other real estate owned	\$	3,915	\$	4,131

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, December 31, 2013	54,667,295	\$ 267,616	\$ 54,667	\$ 541,210	\$ (15,641)	\$ 1,918,163	\$ (25,029)	\$ 2,740,986
Adjustment to initially apply Accounting Standards Update 2014-01						(11,941)		(11,941)
Balance, January 1, 2014	54,667,295	267,616	54,667	541,210	(15,641)	1,906,222	(25,029)	2,729,045
Net income (1)						119,291		119,291
Other comprehensive income, net of tax					17,741			17,741
Issuance of shares under share-based compensation plans	289,544		290	9,653			2,581	12,524
Share-based employee compensation expense				8,875				8,875
Tax benefit from share-based compensation plans				3,306				3,306
Dividends:								
Preferred						(8,188)		(8,188)
Common						(36,541)		(36,541)
Net change in deferred compensation plans				741			(2)	739
Change in redeemable noncontrolling interest				(7,501)				(7,501)
Balance, June 30, 2014	54,956,839	\$ 267,616	\$ 54,957	\$ 556,284	\$ 2,100	\$ 1,980,784	\$ (22,450)	\$ 2,839,291
Balance, December 31, 2014	55,162,455	\$ 267,616	\$ 55,162	\$ 578,046	\$ (7,074)	\$ 2,071,230	\$ (22,279)	\$ 2,942,701
Net income (1)						130,065		130,065
Other comprehensive income, net of tax					5,314			5,314
Issuance of shares under share-based compensation plans	501,192		501	21,793			3,666	25,960
Share-based employee compensation expense				8,279				8,279
Tax benefit from share-based compensation plans				7,906				7,906
Dividends:								
Preferred						(8,188)		(8,188)
Common						(39,236)		(39,236)
Net change in deferred compensation plans	480		1	782			(1)	782
Change in redeemable noncontrolling interest				(1,435)				(1,435)
Balance, June 30, 2015	55,664,127	\$ 267,616	\$ 55,664	\$ 615,371	\$ (1,760)	\$ 2,153,871	\$ (18,614)	\$ 3,072,148

(1) Net income excludes net income attributable to redeemable noncontrolling interest of \$1,033 and \$1,209 for the six-month periods ended June 30, 2015 and 2014, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets. See Note 17 of the Notes to the Unaudited Consolidated Financial Statements.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

City National Corporation (the Corporation) is the holding company for City National Bank (the Bank). The Bank delivers banking, investment and trust services through 75 offices in Southern California, the San Francisco Bay area, Nevada, New York City, Nashville, Tennessee and Atlanta, Georgia. As of June 30, 2015, the Corporation had four consolidated investment advisory affiliates and one unconsolidated subsidiary, Business Bancorp Capital Trust I. Because the Bank comprises substantially all of the business of the Corporation, references to the Company mean the Corporation and the Bank together. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

Consolidation

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

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

Use of Estimates

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

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

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Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Company is on the accrual basis of accounting for income and expenses. The results of operations reflect any adjustments, all of which are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q, and which, in the opinion of management, are necessary for a fair presentation of the results for the periods presented. In accordance with the usual practice of banks, assets and liabilities of individual trust, agency and fiduciary funds have not been included in the financial statements. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The results for the 2015 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 2014 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, 2015. Refer to *Accounting Pronouncements* for discussion of accounting pronouncements adopted in 2015.

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 six months ended June 30, 2015:

- In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 its 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. On January 1, 2015, the Company adopted ASU 2014-01 and elected to apply the proportionate amortization method to its low income housing tax credit investments. Following adoption, the Company recognizes amortization of its tax credit investments as a component of income taxes. The Company previously recognized amortization as a component of noninterest expense. Prior periods presented in the Company's consolidated financial statements have been adjusted to reflect retrospective adoption of ASU 2014-01 as follows:

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Consolidated Balance Sheet

As of December 31, 2014

(in thousands)

As Reported

As Adjusted
(Unaudited)

Assets

Deferred tax asset	\$	230,376	\$	233,811
Affordable housing investments		203,010		186,423
Other assets		537,826		537,847

Shareholders equity

Retained earnings		2,084,361		2,071,230
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(in thousands, except per share amounts)	Consolidated Statement of Income			
	For the three months ended		For the six months ended	
	June 30, 2014		June 30, 2014	
	As Reported	As Adjusted	As Reported	As Adjusted
	(Unaudited)		(Unaudited)	
Noninterest expense				
Other operating	\$ 13,567	\$ 9,527	\$ 26,413	\$ 18,332
Income taxes	29,829	35,109	56,117	66,119
Net income	67,211	65,971	122,421	120,500
Net income per common share, basic	\$ 1.13	\$ 1.11	\$ 2.04	\$ 2.01
Net income per common share, diluted	\$ 1.11	\$ 1.09	\$ 2.01	\$ 1.98

(in thousands)	Consolidated Statement of Cash Flows	
	For the six months ended	
	June 30, 2014	
	As Reported	As Adjusted
	(Unaudited)	
Cash Flows From Operating Activities		
Net income	\$ 122,421	\$ 120,500
Adjustments to net income:		
Deferred income tax benefit	(2,934)	(3,492)
Other, net	14,926	17,383
Net change in:		
Other assets and other liabilities, net	(22,414)	(22,392)

- 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 Company adopted ASU 2014-04 effective January 1, 2015 on a prospective basis. Adoption of the new guidance did not 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. The Company adopted ASU 2014-08 effective January 1, 2015 on a prospective basis. Adoption of the new guidance did not have a significant impact on the Company's 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 Company adopted ASU 2014-11 effective January 1, 2015. Adoption of the new guidance did not have a significant impact on the Company's consolidated financial statements.

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Note 1. Summary of Significant Accounting Policies (Continued)

The following is a summary of recently issued accounting pronouncements:

- In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which significantly changes the consolidation analysis required under U.S. GAAP. The new consolidation guidance maintains two models: one for assessing most corporate entities based on the notion that majority voting rights indicate control (the voting model) and another for assessing entities that may be controlled through other means, such as management contracts or subordinated financial support (the variable interest model). Under the new guidance, limited partnerships will be VIEs, unless the limited partners have either substantive kick-out or participating rights. The ASU also changes the effect that fees paid to a decision maker or service provider have on the consolidation analysis. For entities other than limited partnerships, the ASU clarifies how to determine whether the equity holders (as a group) have power over the entity. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is allowed for all entities, but the guidance must be applied as of the beginning of the annual period containing the adoption date. Entities have the option of using either a full or modified retrospective approach for adoption. The Company is assessing the impact of the new guidance on its consolidated financial statements.
- In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The amendments in this ASU are to be applied on a retrospective basis. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.
- In April 2015, the FASB issued ASU 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. Cloud computing arrangements include: (a) software as a service; (b) platform as a service; (c) infrastructure as a service; and (d) other similar hosting arrangements. Under the ASU, if a cloud computing arrangement contains a software license, the customer would account for the fees related to the software license element in a manner consistent with how the acquisition of other software licenses is accounted for under ASC 350-40. If the arrangement does not contain a software license, the customer would account for the arrangement as a service contract. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. Entities may adopt the guidance either (1) prospectively to arrangements entered into or materially modified after the effective date, or (2) retrospectively. The Company is assessing the impact of the new guidance on its consolidated financial statements.

- In July 2015, the FASB approved to defer by one year the effective dates of its revenue recognition standard ASU 2014-09, *Revenue from Contracts with Customers: Topic 606*. As a result, the standard would be effective for public entities for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2017.

Table of Contents**Note 2. Fair Value Measurements**

The following tables summarize assets and liabilities measured at fair value as of June 30, 2015 and December 31, 2014 by level in the fair value hierarchy:

(in thousands)	Fair Value Measurements at Reporting Date Using			
	Balance as of June 30, 2015	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	\$ 148,308	\$ 148,308	\$	\$
Federal agency - Debt	899,934		899,934	
Federal agency - MBS	96,878		96,878	
CMOs - Federal agency	3,286,076		3,286,076	
CMOs - Non-agency	21,731		21,731	
State and municipal	400,055		396,509	3,546
Other debt securities	87,395		87,395	
Equity securities and mutual funds	466	466		
Trading securities	110,136	103,999	6,137	
Derivative assets (1)	51,671	6,597	43,201	1,873
Contingent consideration asset (1)	2,605			2,605
Total assets at fair value	\$ 5,105,255	\$ 259,370	\$ 4,837,861	\$ 8,024
Liabilities				
Derivative liabilities	\$ 49,587	\$ 6,235	\$ 43,352	\$
Contingent consideration liability	36,573			36,573
FDIC clawback liability	16,289			16,289
Other liabilities	850		850	
Total liabilities at fair value (2)	\$ 103,299	\$ 6,235	\$ 44,202	\$ 52,862
Redeemable noncontrolling interest	\$ 37,755	\$	\$	\$ 37,755
Measured on a Nonrecurring Basis				
Assets				
Other real estate owned (3)	\$ 5,577	\$	\$ 635	\$ 4,942
Private equity and alternative investments	4,434			4,434
Total assets at fair value	\$ 10,011	\$	\$ 635	\$ 9,376

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

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

(3) Includes covered OREO.

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

(in thousands)	Fair Value Measurements at Reporting Date Using			
	Balance as of December 31, 2014	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Measured on a Recurring Basis				
Assets				
Securities available-for-sale:				
U.S. Treasury	\$ 116,926	\$ 116,926	\$	\$
Federal agency - Debt	1,398,581		1,398,581	
Federal agency - MBS	104,526		104,526	
CMOs - Federal agency	3,580,590		3,580,590	
CMOs - Non-agency	24,014		24,014	
State and municipal	479,031		475,484	3,547
Other debt securities	176,169		176,169	
Equity securities and mutual funds	3,146	3,146		
Trading securities	173,188	171,778	1,410	
Derivative assets (1)	51,586	6,106	44,598	882
Contingent consideration asset (1)	2,930			2,930
Total assets at fair value	\$ 6,110,687	\$ 297,956	\$ 5,805,372	\$ 7,359
Liabilities				
Derivative liabilities	\$ 51,309	\$ 6,623	\$ 44,686	\$
Contingent consideration liability	34,983			34,983
FDIC clawback liability	15,106			15,106
Other liabilities	946		946	
Total liabilities at fair value (2)	\$ 102,344	\$ 6,623	\$ 45,632	\$ 50,089
Redeemable noncontrolling interest	\$ 39,978	\$	\$	\$ 39,978
Measured on a Nonrecurring Basis				
Assets				
Other real estate owned (3)	\$ 5,644	\$	\$	\$ 5,644
Total assets at fair value	\$ 5,644	\$	\$	\$ 5,644

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

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

(3) Includes covered OREO.

At June 30, 2015, \$5.11 billion, or approximately 15 percent, of the Company's total assets were recorded at fair value on a recurring basis, compared with \$6.11 billion, or 19 percent, at December 31, 2014. 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 June 30, 2015, \$103.3 million of the Company's total liabilities were recorded at fair value using mostly Level 2 or Level 3 inputs, compared with \$102.3 million at December 31, 2014. 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 six months ended June 30, 2015. At June 30, 2015, \$10.0 million of the Company's total assets were recorded at fair value on a nonrecurring basis, compared with \$5.6 million at December 31, 2014. These assets represent less than one percent of total assets and were measured using Level 2

or Level 3 inputs.

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

Assets and liabilities for which fair value measurement is based on significant unobservable inputs are classified as Level 3 in the fair value hierarchy. The following table provides a reconciliation of the beginning and ending balances for Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2015 and 2014.

Level 3 Assets and Liabilities Measured on a Recurring Basis

(in thousands)	For the six months ended				
	June 30, 2015	Contingent	Consideration	Contingent	FDIC
	Securities Available-for-Sale	Equity Warrants	Asset	Liability	Clawback Liability
Balance, beginning of period	\$ 3,547	\$ 882	\$ 2,930	\$ (34,983)	\$ (15,106)
Total realized/unrealized gains (losses):					
Included in earnings		103	(325)	(754)	(1,183)
Included in other comprehensive income	(1)				
Additions		888			
Other (1)				(836)	
Balance, end of period	\$ 3,546	\$ 1,873	\$ 2,605	\$ (36,573)	\$ (16,289)

(in thousands)	For the six months ended				
	June 30, 2014	Contingent	Consideration	Contingent	FDIC
	Securities Available-for-Sale	Equity Warrants	Liability	Liability	Clawback Liability
Balance, beginning of period	\$ 3,633	\$	\$ (49,900)	\$	\$ (11,967)
Total realized/unrealized gains (losses):					
Included in earnings		78			(2,112)
Included in other comprehensive income	(16)				
Additions		489			
Settlements		(2)	16,250		
Other (1)			(813)		
Balance, end of period	\$ 3,617	\$ 565	\$ (34,463)	\$	\$ (14,079)

(1) Other rollforward activity consists of accretion of discount related to the contingent consideration liability.

Redeemable noncontrolling interest is classified as Level 3 in the fair value hierarchy and measured on a recurring basis. Redeemable noncontrolling interest is valued based on a combination of factors, including but not limited to, observable valuation of firms similar to the affiliates, multiples of revenue or profit, unique investment products or performance track records, strength in the marketplace, projected discounted cash flow scenarios, strategic value of affiliates to other entities, as well as unique sources of value specific to an individual firm. The

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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 six months ended June 30, 2015 and 2014.

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 classified as derivative assets. 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 recordkeeping 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 measured at fair value on a recurring basis using the Black-Scholes option pricing model. Key inputs to the valuation model include current share estimated fair value, strike price, volatility, expected life, risk-free interest rate, and 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. Refer to Note 11, *Derivative Instruments*, for additional discussion of equity warrants.

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

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. In 2014, the Company made total contingent consideration payments to Rochdale's former shareholders of approximately \$17.4 million. The fair value of the remaining contingent consideration was estimated using a probability-weighted discounted cash flow model. Although the acquisition agreement does not set a limit on the total payment, the Company estimates that the remaining consideration payment could be in the range of \$16 million to \$47 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, and (2) loan performance assumptions such as prepayments and losses.

There were no transfers into or out of Level 3 assets or liabilities measured on a recurring basis during the six months ended June 30, 2015 and 2014.

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 whether the Company expects to recover the cost of an investment.

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 June 30, 2015	Valuation Method	Unobservable Inputs
Other real estate owned	\$ 4,942	Third-party appraisal	- Fair values are primarily based on unadjusted appraised values.

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				- One property is valued using comparable sales values resulting in discount to appraised value of 12%.
Private equity and alternative investments	\$	4,434	See note (1)	- See note (1) - Fair values reflect discounts to investment carrying amounts ranging from 14% to 50%.

(1) Fair values are based on management's assumptions regarding recoverability of an investment based on a range of factors including, but not limited to, nature and age of the investment, actual and forecasted investment performance, fund operating results, recent and planned transactions, general and industry specific market conditions, performance of comparable companies and investment exit strategies.

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

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 six months ended June 30, 2015 and 2014:

(in thousands)	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014		2015	2014	
Collateral dependent impaired loans:						
Commercial real estate mortgages	\$	\$	\$	\$		(5)
Residential mortgages			74			74
Other real estate owned (1)		318	1,006	(1,319)		1,067
Private equity and alternative investments		(1,230)		(1,630)		
Total net (losses) gains recognized	\$	(912)	\$ 1,080	\$ (2,949)	\$	1,136

(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 financial assets or liabilities. Refer to Note 1, *Summary of Significant Accounting Policies*, in the Company's 2014 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.

(in millions)	Carrying Amount	Total Fair Value	June 30, 2015		
			Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	\$ 433.6	\$ 433.6	\$ 433.6	\$	\$
Due from banks - interest-bearing	704.3	704.3	704.3		
Securities purchased under resale agreements	200.0	201.3		201.3	
Securities held-to-maturity	3,422.2	3,460.9		3,460.9	
Loans and leases, net of allowance	21,612.4	22,102.9			22,102.9
Covered loans, net of allowance	426.0	471.0			471.0
FDIC indemnification asset	34.8	27.8			27.8
Investment in FHLB and FRB stock	50.6	50.6		50.6	
Financial Liabilities:					
Deposits	\$ 29,481.2	\$ 29,482.2	\$	\$ 28,917.8	\$ 564.4
Short-term borrowings	6.3	6.3			6.3
Long-term debt	640.6	708.0		606.8	101.2

(in millions)	Carrying Amount	Total Fair Value	December 31, 2014		
			Fair Value Measurements Using		
			Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	\$ 336.5	\$ 336.5	\$ 336.5	\$	\$
Due from banks - interest-bearing	120.0	120.0	120.0		
Securities purchased under resale agreements	200.0	201.1		201.1	
Securities held-to-maturity	3,427.0	3,484.6		3,484.6	
Loans and leases, net of allowance	20,027.1	20,576.9			20,576.9
Covered loans, net of allowance	502.4	549.1			549.1
FDIC indemnification asset	50.5	40.2			40.2
Investment in FHLB and FRB stock	58.4	58.4		58.4	
Financial Liabilities:					
Deposits	\$ 28,108.1	\$ 28,109.6	\$	\$ 27,435.1	\$ 674.5
Short-term borrowings	322.9	322.9	320.0		2.9
Long-term debt	638.6	704.3		605.3	99.0

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

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Cash and due from banks and Due from banks interest-bearing For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

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

Securities held-to-maturity For securities held-to-maturity, the fair value is generally determined by quoted market prices, where available, or based on observable market inputs appropriate for the type of security.

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Note 2. Fair Value Measurements (Continued)

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 tables. 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 Company's loan pricing model for like-quality credits. The discount rates used in the model represent the rates the Company 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 future loan cash flows are estimated 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 expected cash flows with appropriate market discount 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 Company 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 Company'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 Company 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 nonrecourse debt is determined by discounting expected cash flows with appropriate market discount rates. The carrying amount of the remaining 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 expected cash flows with appropriate market discount rates.

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

Note 3. Securities

At June 30, 2015, the Company had total securities of \$8.47 billion, comprised of securities available-for-sale at fair value of \$4.94 billion, securities held-to-maturity at amortized cost of \$3.42 billion and trading securities at fair value of \$110.1 million. At December 31, 2014, the Company had total securities of \$9.48 billion, comprised of securities available-for-sale at fair value of \$5.88 billion, securities held-to-maturity at amortized cost of \$3.43 billion and trading securities at fair value of \$173.2 million.

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

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 June 30, 2015 and December 31, 2014:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
Securities available-for-sale:				
U.S. Treasury	\$ 148,263	\$ 59	\$ (14)	\$ 148,308
Federal agency - Debt	899,379	762	(207)	899,934
Federal agency - MBS	95,778	2,139	(1,039)	96,878
CMOs - Federal agency	3,295,300	19,497	(28,721)	3,286,076
CMOs - Non-agency	22,091	21	(381)	21,731
State and municipal	395,350	4,946	(241)	400,055
Other debt securities	86,308	1,087		87,395
Total debt securities	4,942,469	28,511	(30,603)	4,940,377
Equity securities and mutual funds	664		(198)	466
Total securities available-for-sale	\$ 4,943,133	\$ 28,511	\$ (30,801)	\$ 4,940,843
Securities held-to-maturity (1):				
Federal agency - Debt	\$ 323,805	\$ 6,431	\$ (166)	\$ 330,070
Federal agency - MBS	578,603	11,447	(3,105)	586,945
CMOs - Federal agency	1,684,687	26,833	(7,480)	1,704,040
State and municipal	749,253	13,641	(9,021)	753,873
Other debt securities	85,831	183		86,014
Total securities held-to-maturity	\$ 3,422,179	\$ 58,535	\$ (19,772)	\$ 3,460,942
December 31, 2014				
Securities available-for-sale:				
U.S. Treasury	\$ 116,919	\$ 17	\$ (10)	\$ 116,926
Federal agency - Debt	1,401,303	558	(3,280)	1,398,581
Federal agency - MBS	102,939	2,601	(1,014)	104,526
CMOs - Federal agency	3,599,831	19,628	(38,869)	3,580,590
CMOs - Non-agency	24,385	40	(411)	24,014
State and municipal	473,272	6,139	(380)	479,031
Other debt securities	174,352	1,817		176,169
Total debt securities	5,893,001	30,800	(43,964)	5,879,837
Equity securities and mutual funds	1,508	1,988	(350)	3,146
Total securities available-for-sale	\$ 5,894,509	\$ 32,788	\$ (44,314)	\$ 5,882,983
Securities held-to-maturity (1):				
Federal agency - Debt	\$ 292,932	\$ 6,430	\$ (255)	\$ 299,107
Federal agency - MBS	553,589	13,427	(2,275)	564,741
CMOs - Federal agency	1,811,574	29,998	(10,292)	1,831,280
State and municipal	682,705	22,732	(1,997)	703,440
Other debt securities	86,231	72	(224)	86,079
Total securities held-to-maturity	\$ 3,427,031	\$ 72,659	\$ (15,043)	\$ 3,484,647

- (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 \$2.6 million and \$400.8 million for the three and six months ended June 30, 2015, compared with \$15.0 million and \$626.1 million for the three and six months ended June 30, 2014. There were no sales of securities held-to-maturity during the three and six months ended June 30, 2015 and 2014. 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 June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Gross realized gains	\$ 2,032	\$ 5,368	\$ 5,424	\$ 7,970
Gross realized losses	(108)	(1)	(124)	(481)
Net realized gains	\$ 1,924	\$ 5,367	\$ 5,300	\$ 7,489

Interest income on securities for the three months ended June 30, 2015 and 2014 is comprised of: (i) taxable interest income of \$34.1 million and \$37.5 million, respectively, (ii) nontaxable interest income of \$7.1 million and \$6.0 million, respectively, and (iii) dividend income of \$19 thousand and \$16 thousand, respectively. Interest income on securities for the six months ended June 30, 2015 and 2014 is comprised of: (i) taxable interest income of \$69.1 million and \$73.5 million, respectively, (ii) nontaxable interest income of \$14.1 million and \$11.5 million, respectively, and (iii) dividend income of \$30 thousand and \$25 thousand, respectively.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at June 30, 2015, 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	\$ 72,793	\$ 75,515	\$	\$	\$ 148,308
Federal agency - Debt	476,226	423,708			899,934
Federal agency - MBS		96,878			96,878
CMOs - Federal agency	120,247	2,988,305	177,524		3,286,076
CMOs - Non-agency	1,223	20,508			21,731
State and municipal	175,966	220,741		3,348	400,055
Other	38,636	48,759			87,395
Total debt securities available-for-sale	\$ 885,091	\$ 3,874,414	\$ 177,524	\$ 3,348	\$ 4,940,377
Amortized cost	\$ 882,733	\$ 3,877,641	\$ 178,695	\$ 3,400	\$ 4,942,469
Securities held-to-maturity:					
Federal agency - Debt	\$	\$ 23,000	\$ 149,266	\$ 151,539	\$ 323,805
Federal agency - MBS		47,500	526,581	4,522	578,603
CMOs - Federal agency	9,728	762,883	912,076		1,684,687
State and municipal		141,904	401,476	205,873	749,253
Other		85,831			85,831

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Total debt securities held-to-maturity at amortized cost	\$	9,728	\$	1,061,118	\$	1,989,399	\$	361,934	\$	3,422,179
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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. Amortized cost includes adjustments made to the cost of an investment for amortization, accretion, collection of cash and previous other-than-temporary impairment recognized in earnings. 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. A credit loss is the difference between the amortized cost of the security and the present value of cash flows expected to be collected, discounted at the security's effective interest rate at the date of acquisition. 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 \$0.3 million for the three and six months ended June 30, 2015. The Company recorded impairment losses in earnings of \$0.2 million for the three and six months ended June 30, 2014. The Company recognized after-tax amounts of \$0.2 million of non-credit-related other-than-temporary impairment in accumulated other comprehensive income or loss (AOCI) on securities classified as available-for-sale at June 30, 2015 and 2014. No impairment losses were recognized in earnings or AOCI for securities held-to-maturity during the three and six months ended June 30, 2015 and 2014.

The following table provides total impairment losses recognized in earnings on other-than-temporarily impaired securities for the three and six months ended June 30, 2015 and 2014:

(in thousands)	For the three months ended		For the six months ended	
Impairment Losses on	June 30,		June 30,	
Other-Than-Temporarily Impaired Securities	2015	2014	2015	2014

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Non-agency CMOs	\$	52	\$	248	\$	117	\$	248
Equity securities		219				219		
Total	\$	271	\$	248	\$	336	\$	248

The following table summarizes the changes in cumulative credit-related other-than-temporary impairment recognized in earnings for debt securities for the three and six months ended June 30, 2015 and 2014. 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.

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

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Balance, beginning of period	\$ 2,535	\$ 4,549	\$ 2,470	\$ 4,549
Subsequent credit-related impairment	52	248	117	248
Reduction for securities sold or redeemed		(2,402)		(2,402)
Balance, end of period	\$ 2,587	\$ 2,395	\$ 2,587	\$ 2,395

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 June 30, 2015 and December 31, 2014. The table also includes investment securities that had both a credit-related impairment recognized in earnings and a non-credit-related impairment recognized in AOCI.

(in thousands)	Less than 12 months		12 months or greater		Total	
	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss	Fair Value	Estimated Unrealized Loss
June 30, 2015						
Securities available-for-sale:						
U.S. Treasury	\$ 89,266	\$ 14	\$	\$	\$ 89,266	\$ 14
Federal agency - Debt	307,112	207			307,112	207
Federal agency - MBS			54,924	1,039	54,924	1,039
CMOs - Federal agency	718,502	3,031	1,200,002	25,690	1,918,504	28,721
CMOs - Non-agency	6,342	19	11,738	362	18,080	381
State and municipal	151,358	188	3,547	53	154,905	241
Total debt securities	1,272,580	3,459	1,270,211	27,144	2,542,791	30,603
Equity securities and mutual funds	466	198			466	198
Total securities available-for-sale	\$ 1,273,046	\$ 3,657	\$ 1,270,211	\$ 27,144	\$ 2,543,257	\$ 30,801
Securities held-to-maturity:						
Federal agency - Debt	\$ 27,656	\$ 68	\$ 5,668	\$ 98	\$ 33,324	\$ 166
Federal agency - MBS	130,389	2,014	39,975	1,091	170,364	3,105
CMOs - Federal agency	400,181	3,376	221,525	4,104	621,706	7,480
State and municipal	264,376	7,102	33,001	1,919	297,377	9,021
Total securities held-to-maturity	\$ 822,602	\$ 12,560	\$ 300,169	\$ 7,212	\$ 1,122,771	\$ 19,772
December 31, 2014						
Securities available-for-sale:						
U.S. Treasury	\$ 15,814	\$ 10	\$	\$	\$ 15,814	\$ 10
Federal agency - Debt	1,008,234	2,622	135,868	658	1,144,102	3,280
Federal agency - MBS	35		57,970	1,014	58,005	1,014
CMOs - Federal agency	871,026	3,417	1,261,695	35,452	2,132,721	38,869
CMOs - Non-agency	1,949	15	12,720	396	14,669	411
State and municipal	130,208	314	4,183	66	134,391	380
Total debt securities	2,027,266	6,378	1,472,436	37,586	3,499,702	43,964

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Equity securities and mutual funds	538	350	538	350
Total securities available-for-sale	\$ 2,027,804	\$ 6,728	\$ 1,472,436	\$ 37,586
Securities held-to-maturity:				
Federal agency - Debt	\$ 4,800	\$ 21	\$ 26,316	\$ 255
Federal agency - MBS	202,014	2,247	588,019	8,045
CMOs - Federal agency	14,851	76	95,647	1,921
State and municipal	61,813	224	61,813	224
Other debt securities				
Total securities held-to-maturity	\$ 283,478	\$ 2,568	\$ 824,838	\$ 12,475
			\$ 1,108,316	\$ 15,043

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

At June 30, 2015, the Company had securities available-for-sale with a fair value of \$2.54 billion and securities held-to-maturity with a fair value of \$1.12 billion in an unrealized loss position. The debt securities in an unrealized loss position totaled 553 and included 4 U.S. Treasury notes, 10 federal agency debt securities, 28 federal agency MBS, 131 federal agency CMOs, 4 non-agency CMOs and 376 state and municipal securities. At June 30, 2015, the Company had one equity security in an unrealized loss position.

At December 31, 2014, the Company had securities available-for-sale with a fair value of \$3.50 billion and securities held-to-maturity with a fair value of \$1.11 billion in an unrealized loss position. The debt securities in an unrealized loss position totaled 436 and included 2 U.S. Treasury notes, 37 federal agency debt securities, 23 federal agency MBS, 141 federal agency CMOs, 3 non-agency CMOs, 225 state and municipal securities and 5 other debt securities. At December 31, 2014, the Company had one equity security in an unrealized loss position.

Note 4. Other Investments*FHLB and FRB Stock*

The Company's investment in stock issued by the FHLB and FRB totaled \$50.6 million and \$58.4 million at June 30, 2015 and December 31, 2014, respectively. Ownership of government agency securities is restricted to member banks, and the securities do not have readily determinable market values. The Company records investments in FHLB and FRB stock at cost in Other assets of the consolidated balance sheets and evaluates these investments for impairment. The Company expects to recover the full amount invested in FHLB and FRB stock.

Private Equity and Alternative Investments

The Company has ownership interests in a limited number of private equity, venture capital, real estate and hedge funds that are not publicly traded and do not have readily determinable fair values. These investments are carried at cost in the Other assets section of the consolidated balance sheets and are net of impairment write-downs, if applicable. The Company's investments in these funds totaled \$27.5 million and \$29.2 million at June 30, 2015 and December 31, 2014. A summary of investments by fund type is provided below:

(in thousands) Fund Type	June 30, 2015	December 31, 2014
Private equity and venture capital	\$ 18,449	\$ 18,605
Real estate	7,359	7,081
Hedge	1,169	1,668
Other (1)	500	1,858
Total	\$ 27,477	\$ 29,212

- (1) Includes direct investments in a limited number of start-up companies.

Management reviews these investments quarterly for impairment. The impairment assessment includes a review of the most recent financial statements and investment reports for each fund and discussions with fund management. An impairment loss is recognized if the Company does not expect to recover the cost of an investment. The impairment loss is recognized in Other noninterest income in the consolidated statements of income. The new cost basis of the investment is not adjusted for subsequent recoveries in value. The Company recognized \$1.2 million and \$1.6 million in impairment losses on its investments during the three and six months ended June 30, 2015. The Company recognized no impairment losses during the three and six months ended June 30, 2014.

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

The table below provides information as of June 30, 2015 on private equity and alternative investments measured at fair value on a nonrecurring basis due to the recognition of impairment:

(in thousands) Fund Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity and venture capital	\$ 3,934	\$ 993	None(1)	N/A
Other	500		None	N/A
Total	\$ 4,434	\$ 993		

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

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

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

Loans and Leases

(in thousands)	June 30, 2015	December 31, 2014
Commercial	\$ 10,061,735	\$ 9,360,976
Commercial real estate mortgages	3,850,915	3,539,703
Residential mortgages	5,490,375	5,106,803
Real estate construction	877,838	710,224
Home equity loans and lines of credit	787,417	785,796
Installment	199,583	184,613
Lease financing	661,465	649,091
Loans and leases, excluding covered loans	21,929,328	20,337,206
Less: Allowance for loan and lease losses	(316,922)	(310,149)
Loans and leases, excluding covered loans, net	21,612,406	20,027,057
Covered loans	434,033	510,979
Less: Allowance for loan losses	(8,075)	(8,608)
Covered loans, net	425,958	502,371
Total loans and leases	\$ 22,363,361	\$ 20,848,185
Total loans and leases, net	\$ 22,038,364	\$ 20,529,428

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The loan amounts above include deferred costs, net of unamortized fees, of \$0.9 million and \$0.2 million as of June 30, 2015 and December 31, 2014, respectively.

Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company's lending activities are predominantly in California, and to a lesser extent, New York, the Company has various specialty lending businesses that lend to businesses located throughout the United States of America and in certain foreign countries to facilitate trade finance activities. Excluding covered loans, at June 30, 2015, California represented 73 percent of total loans outstanding and New York represented 9 percent. The remaining 18 percent of total loans outstanding represented other states and countries. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of Southern California. Credit performance also depends, to a lesser extent, on economic conditions in the San Francisco Bay area and New York.

Within the Company's covered loan portfolio at June 30, 2015, the five states with the largest concentration were California (29 percent), Texas (12 percent), Arizona (7 percent), Nevada (6 percent) and Ohio (6 percent). The remaining 40 percent of total covered loans outstanding represented other states.

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

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements. Covered loans were \$434.0 million at June 30, 2015 and \$511.0 million at December 31, 2014. Covered loans, net of allowance for loan losses, were \$426.0 million at June 30, 2015 and \$502.4 million at December 31, 2014.

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

(in thousands)	June 30, 2015	December 31, 2014
Commercial	\$ 1,630	\$ 1,969
Commercial real estate mortgages	409,404	481,689
Residential mortgages	3,653	4,455
Real estate construction	16,313	18,790
Home equity loans and lines of credit	2,846	3,820
Installment	187	256
Covered loans	434,033	510,979
Less: Allowance for loan losses	(8,075)	(8,608)
Covered loans, net	\$ 425,958	\$ 502,371

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

(in thousands)	Imperial Capital Bank	1st Pacific Bank	Sun West Bank	Nevada Commerce Bank	Total
Covered loans as of:					
June 30, 2015	\$ 388,301	\$ 21,146	\$ 7,210	\$ 17,376	\$ 434,033
December 31, 2014	456,177	23,895	9,353	21,554	510,979
As of June 30, 2015:					
FDIC indemnification asset	\$ 31,536	\$ 1,222	\$ 262	\$ 1,779	\$ 34,799
FDIC clawback liability		13,289	2,711	289	16,289
Expiration date of FDIC loss sharing:					
Commercial (1)	12/31/2016	6/30/2015	6/30/2015	6/30/2016	
Residential	12/31/2019	5/31/2020	5/31/2020	4/30/2021	
Termination date of FDIC loss-sharing agreements:					
Commercial (1)	12/19/2017	5/8/2018	5/29/2018	6/30/2019	
Residential	12/31/2019	5/31/2020	5/31/2020	4/30/2021	

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

FDIC loss sharing under the commercial loss-sharing agreements for 1st Pacific Bank of California (FPB) and Sun West Bank (SWB) ended on June 30, 2015. As a result, losses recognized on assets subject to these agreements are no longer shared with the FDIC effective July 1, 2015. However, the Company is still subject to sharing 80 percent of its recoveries with the FDIC for the time period as indicated in the table above. As of June 30, 2015, loans that are no longer covered by FDIC loss sharing were \$18.0 million and \$7.1 million for FPB and SWB, respectively. The FDIC indemnification asset associated with these loans was zero at June 30, 2015.

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

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

The excess of cash flows expected to be collected over the carrying value of the underlying acquired impaired loans is referred to as the accretable yield. This amount is not reported in the consolidated balance sheets but is accreted into interest income over the remaining estimated lives of the underlying pools of loans. Changes in the accretable yield for acquired impaired loans were as follows for the six months ended June 30, 2015 and 2014:

(in thousands)	For the six months ended	
	June 30,	
	2015	2014
Balance, beginning of period	\$ 168,469	\$ 219,018
Accretion	(19,235)	(24,907)
Reclassifications from nonaccretable difference	12,710	18,965
Disposals and other	(17,000)	(16,198)
Balance, end of period	\$ 144,944	\$ 196,878

The factors that most significantly affect estimates of cash flows expected to be collected, and accordingly the accretable yield balance, include: (i) changes in credit assumptions, including both credit loss amounts and timing; (ii) changes in prepayment assumptions; and (iii) changes in interest rates for variable-rate loans. Reclassifications between accretable yield and nonaccretable difference may vary from period to period as the Company periodically updates its cash flow projections. The reclassification of nonaccretable difference to accretable yield during 2015 was principally driven by positive changes in cash flows, resulting mainly from changes in credit assumptions.

The Company recorded an indemnification asset related to its FDIC-assisted acquisitions, which represents the present value of the expected reimbursement from the FDIC for expected losses on acquired loans, OREO and unfunded commitments. The difference between the carrying value of the FDIC indemnification asset and the undiscounted cash flow that the Company expects to collect from the FDIC is accreted or amortized into noninterest income up until the expiration date of the FDIC loss sharing. Refer to the preceding table for a list of expiration dates of FDIC loss sharing by acquired entity. The FDIC indemnification asset is reviewed on a quarterly basis and adjusted based on changes in cash flow projections. The FDIC indemnification asset from all FDIC-assisted acquisitions was \$34.8 million at June 30, 2015 and \$50.5 million at December 31, 2014.

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

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

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

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

For commercial, non-homogenous loans that are not impaired, the Company derives loss factors for each risk grade and loan type via a process that begins with estimates of probable losses inherent in the portfolio based upon various statistical analyses. The factors considered in the analysis include loan type, migration analysis, in which historical delinquency and credit loss experience is applied to the portfolio, as well as analyses that reflect current trends and conditions. Each portfolio of smaller balance homogeneous loans, including residential first mortgages, installment, revolving credit and most other consumer loans, is collectively evaluated for loss potential. The quantitative portion of the allowance for loan and lease losses is adjusted for qualitative factors to account for model imprecision and to incorporate the range of probable outcomes inherent in the estimates used for the allowance. The Company has a qualitative factor matrix to determine the amount of reserves needed for judgmental factors that are not attributable to or reflected in the quantitative model. The methodology to determine the qualitative reserves includes segmenting the Company's portfolio into three loan categories: commercial real estate secured, commercial and consumer. The qualitative reserve factors are separated into numerically informed and judgmental categories. Numerically informed factors are linked to defined macroeconomic or bank specific criteria, such as portfolio growth, problem loan trends and concentrations. Judgmental factors are based on the Company's assessment of factors that include, but are not limited to, the legal and regulatory environment, internal systems and procedures, and entry into a new business. Each factor is assigned a risk level and a risk weight in points which is aggregated to determine the level of qualitative reserves. The factors are updated quarterly to reflect changing conditions.

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

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

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

The following is a summary of activity in the allowance for loan and lease losses and period-end recorded investment balances of loans evaluated for impairment, excluding covered loans, for the three and six months ended June 30, 2015 and 2014. Activity is provided by loan portfolio segment which is consistent with the Company's methodology for determining the allowance for loan and lease losses.

(in thousands)	Commercial (1)	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Home Equity Loans and Lines of Credit	Installment	Qualitative	Total
Three months ended June 30, 2015								
Allowance for loan and lease losses:								
Beginning balance	\$ 120,666	\$ 47,017	\$ 9,967	\$ 10,234	\$ 6,361	\$ 2,153	\$ 112,460	\$ 308,858
Charge-offs	(2,875)					(231)		(3,106)
Recoveries	599	42	37	1,623	35	198		2,534
Net (charge-offs) recoveries	(2,276)	42	37	1,623	35	(33)		(572)
(Reversal of) provision for credit losses	5,924	1,590	(344)	(1,205)	(992)	88	4,939	10,000
Transfers to reserve for off-balance sheet credit commitments							(1,364)	(1,364)
Ending balance	\$ 124,314	\$ 48,649	\$ 9,660	\$ 10,652	\$ 5,404	\$ 2,208	\$ 116,035	\$ 316,922
Six months ended June 30, 2015								
Allowance for loan and lease losses:								
Beginning balance	\$ 115,855	\$ 44,745	\$ 10,296	\$ 9,115	\$ 6,609	\$ 2,228	\$ 121,301	\$ 310,149
Charge-offs	(5,700)					(508)		(6,208)
Recoveries	1,715	1,202	76	1,710	73	418		5,194
Net (charge-offs) recoveries	(3,985)	1,202	76	1,710	73	(90)		(1,014)
(Reversal of) provision for credit losses	12,444	2,702	(712)	(173)	(1,278)	70	(3,053)	10,000
Transfers to reserve for off-balance sheet credit commitments							(2,213)	(2,213)
Ending balance	\$ 124,314	\$ 48,649	\$ 9,660	\$ 10,652	\$ 5,404	\$ 2,208	\$ 116,035	\$ 316,922
Ending balance of allowance:								
Individually evaluated for impairment	\$ 1,299	\$ 263	\$ 33	\$	\$	\$	\$	\$ 1,595
Collectively evaluated for impairment	123,015	48,386	9,627	10,652	5,404	2,208	116,035	315,327
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases, excluding covered loans	\$ 10,723,200	\$ 3,850,915	\$ 5,490,375	\$ 877,838	\$ 787,417	\$ 199,583	\$	\$ 21,929,328
Individually evaluated for impairment	8,791	22,993	11,912	5,816	933			50,445
	10,714,409	3,827,922	5,478,463	872,022	786,484	199,583		21,878,883

Collectively evaluated for
impairment

(1) Includes lease financing loans.

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

(in thousands)	Commercial (1)	Commercial Real Estate Mortgages	Residential Mortgages	Real Estate Construction	Home Equity Loans and Lines of Credit	Installment	Qualitative	Total
Three months ended June 30, 2014								
Allowance for loan and lease losses:								
Beginning balance	\$ 121,574	\$ 51,361	\$ 11,595	\$ 6,468	\$ 6,419	\$ 1,824	\$ 106,549	\$ 305,790
Charge-offs	(12,862)				(149)	(142)		(13,153)
Recoveries	7,503	27	190	687	43	1,068		9,518
Net (charge-offs) recoveries	(5,359)	27	190	687	(106)	926		(3,635)
(Reversal of) provision for credit losses	711	(737)	(1,489)	36	262	(466)	683	(1,000)
Transfers from reserve for off-balance sheet credit commitments	9,353						768	10,121
Ending balance	\$ 126,279	\$ 50,651	\$ 10,296	\$ 7,191	\$ 6,575	\$ 2,284	\$ 108,000	\$ 311,276
Six months ended June 30, 2014								
Allowance for loan and lease losses:								
Beginning balance	\$ 117,103	\$ 50,678	\$ 11,540	\$ 6,351	\$ 6,677	\$ 1,842	\$ 108,393	\$ 302,584
Charge-offs	(14,821)	(5)	(482)		(165)	(188)		(15,661)
Recoveries	9,235	127	225	5,075	202	1,332		16,196
Net (charge-offs) recoveries	(5,586)	122	(257)	5,075	37	1,144		535
(Reversal of) provision for credit losses	5,409	(149)	(987)	(4,235)	(139)	(702)	(197)	(1,000)
Transfers from (to) reserve for off-balance sheet credit commitments	9,353						(196)	9,157
Ending balance	\$ 126,279	\$ 50,651	\$ 10,296	\$ 7,191	\$ 6,575	\$ 2,284	\$ 108,000	\$ 311,276
Ending balance of allowance:								
Individually evaluated for impairment	\$ 8,477	\$ 301	\$ 5	\$	\$	\$ 50	\$	\$ 8,833
Collectively evaluated for impairment	117,802	50,350	10,291	7,191	6,575	2,234	108,000	302,443
Loans and leases, excluding covered loans								
Ending balance of loans and leases:								
Loans and leases, excluding covered loans	\$ 8,837,544	\$ 3,464,918	\$ 4,814,435	\$ 457,557	\$ 716,816	\$ 183,518	\$	\$ 18,474,788
Individually evaluated for impairment	29,231	33,456	10,596	12,846	3,436	50		89,615
Collectively evaluated for impairment	8,808,313	3,431,462	4,803,839	444,711	713,380	183,468		18,385,173

(1) Includes lease financing loans.

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Off-balance sheet credit exposures include loan commitments and letters of credit. The following table provides a summary of activity in the reserve for off-balance sheet credit commitments for the three and six months ended June 30, 2015 and 2014:

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Balance, beginning of period	\$ 28,660	\$ 34,908	\$ 27,811	\$ 33,944
Transfers from (to) allowance for loan and lease losses	1,364	(10,121)	2,213	(9,157)
Balance, end of period	\$ 30,024	\$ 24,787	\$ 30,024	\$ 24,787

The reserve for off-balance sheet credit commitments increased \$1.4 million and \$2.2 million during the three and six months ended June 30, 2015, respectively. The increase was due to normal fluctuations in the amount of reserves required due to changes in the composition, amount and quality of risk ratings of borrowers associated with the off-balance sheet commitments. Increases and decreases in the reserve for off-balance sheet credit commitments are reflected as an allocation of provision expense from or to the allowance for loan and lease losses.

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

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

Information on impaired loans, excluding covered loans, at June 30, 2015, December 31, 2014 and June 30, 2014 is provided in the following tables:

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	For the three months ended June 30, 2015		For the six months ended June 30, 2015	
				Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
June 30, 2015							
With no related allowance recorded:							
Commercial	\$ 2,453	\$ 8,364	\$	\$ 1,951	\$ 18	\$ 4,265	\$ 23
Commercial real estate mortgages	17,974	19,067		17,906	197	18,557	405
Residential mortgages:							
Fixed	8,000	8,271		7,860	16	7,825	26
Variable						75	
Total residential mortgages	8,000	8,271		7,860	16	7,900	26
Real estate construction:							
Land	5,816	6,900		7,398	52	7,135	114
Total real estate construction	5,816	6,900		7,398	52	7,135	114
Home equity loans and lines of credit	933	2,042		934		1,379	
Total with no related allowance	\$ 35,176	\$ 44,644	\$	\$ 36,049	\$ 283	\$ 39,236	\$ 568
With an allowance recorded:							
Commercial	\$ 6,338	\$ 6,431	\$ 1,299	\$ 6,245	\$ 26	\$ 6,320	\$ 43
Commercial real estate mortgages	5,019	5,343	263	5,030	71	5,081	142
Residential mortgages:							
Variable	3,912	3,904	33	3,924	26	3,935	52
Total residential mortgages	3,912	3,904	33	3,924	26	3,935	52

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Total with an allowance	\$	15,269	\$	15,678	\$	1,595	\$	15,199	\$	123	\$	15,336	\$	237
Total impaired loans by type:														
Commercial	\$	8,791	\$	14,795	\$	1,299	\$	8,196	\$	44	\$	10,585	\$	66
Commercial real estate mortgages		22,993		24,410		263		22,936		268		23,638		547
Residential mortgages		11,912		12,175		33		11,784		42		11,835		78
Real estate construction		5,816		6,900				7,398		52		7,135		114
Home equity loans and lines of credit		933		2,042				934				1,379		
Total impaired loans	\$	50,445	\$	60,322	\$	1,595	\$	51,248	\$	406	\$	54,572	\$	805

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

(in thousands)	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
December 31, 2014			
With no related allowance recorded:			
Commercial	\$ 8,894	\$ 9,182	\$
Commercial real estate mortgages	19,858	22,416	
Residential mortgages:			
Fixed	7,756	7,994	
Variable	224	262	
Total residential mortgages	7,980	8,256	
Real estate construction:			
Land	6,609	8,758	
Total real estate construction	6,609	8,758	
Home equity loans and lines of credit	2,270	3,375	
Total with no related allowance	\$ 45,611	\$ 51,987	\$
With an allowance recorded:			
Commercial	\$ 6,470	\$ 8,878	\$ 399
Commercial real estate mortgages	5,184	5,526	281
Residential mortgages:			
Variable	3,957	3,948	48
Total residential mortgages	3,957	3,948	48
Total with an allowance	\$ 15,611	\$ 18,352	\$ 728
Total impaired loans by type:			
Commercial	\$ 15,364	\$ 18,060	\$ 399
Commercial real estate mortgages	25,042	27,942	281
Residential mortgages	11,937	12,204	48
Real estate construction	6,609	8,758	
Home equity loans and lines of credit	2,270	3,375	
Total impaired loans	\$ 61,222	\$ 70,339	\$ 728

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

(in thousands)					For the three months ended June 30, 2014		For the six months ended June 30, 2014	
	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	
June 30, 2014								
With no related allowance recorded:								
Commercial	\$ 6,980	\$ 7,713	\$	\$ 9,118	\$ 30	\$ 11,986	\$ 167	
Commercial real estate mortgages	28,233	30,829		32,398	246	32,522	684	
Residential mortgages:								
Fixed	4,796	5,012		4,842	10	3,940	20	
Variable	1,799	1,922		2,408	14	3,406	28	
Total residential mortgages	6,595	6,934		7,250	24	7,346	48	
Real estate construction:								
Construction				2,742	21	3,656	76	
Land	12,846	26,520		13,075	35	13,254	69	
Total real estate construction	12,846	26,520		15,817	56	16,910	145	
Home equity loans and lines of credit	3,436	4,505		3,442		3,071		
Installment:								
Consumer							5	
Total installment							5	
Total with no related allowance	\$ 58,090	\$ 76,501	\$	\$ 68,025	\$ 356	\$ 71,840	\$ 1,044	
With an allowance recorded:								
Commercial	\$ 22,251	\$ 28,454	\$ 8,477	\$ 19,839	\$	\$ 17,938	\$	
Commercial real estate mortgages	5,223	5,586	301	5,293	74	5,323	118	
Residential mortgages:								
Variable	4,001	3,993	5	2,001	11	1,892	11	
Total residential mortgages	4,001	3,993	5	2,001	11	1,892	11	
Installment:								
Consumer	50	50	50	25	1	17	1	
Total installment	50	50	50	25	1	17	1	
Total with an allowance	\$ 31,525	\$ 38,083	\$ 8,833	\$ 27,158	\$ 86	\$ 25,170	\$ 130	
Total impaired loans by type:								
Commercial	\$ 29,231	\$ 36,167	\$ 8,477	\$ 28,957	\$ 30	\$ 29,924	\$ 167	
Commercial real estate mortgages	33,456	36,415	301	37,691	320	37,845	802	
Residential mortgages	10,596	10,927	5	9,251	35	9,238	59	
Real estate construction	12,846	26,520		15,817	56	16,910	145	
Home equity loans and lines of credit	3,436	4,505		3,442		3,071		
Installment	50	50	50	25	1	22	1	
Total impaired loans	\$ 89,615	\$ 114,584	\$ 8,833	\$ 95,183	\$ 442	\$ 97,010	\$ 1,174	

Impaired loans at June 30, 2015 and December 31, 2014 included \$29.5 million and \$30.6 million, respectively, of loans that are on accrual status. With the exception of restructured loans on accrual status and a limited number of loans on cash basis nonaccrual for which the full

collection of principal and interest is expected, interest income is not recognized on impaired loans until the principal balance of these loans is paid off.

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

The following table provides a summary of loans modified in a troubled debt restructuring during the three months ended June 30, 2015 and 2014:

(in thousands)	Number of Contracts	Pre-Modification Outstanding Principal	Period-End Outstanding Principal	Financial Effects (1)
Three months ended June 30, 2015				
Commercial	1	\$ 631	\$ 583	\$
Commercial real estate mortgages	1	418	418	
Residential mortgages:				
Fixed	1	302	301	
Total troubled debt restructured loans	3	\$ 1,351	\$ 1,302	\$
Three months ended June 30, 2014				
Residential mortgages:				
Variable	1	\$ 4,000	\$ 3,993	\$ 5
Installment:				
Consumer	1	50	50	50
Total troubled debt restructured loans	2	\$ 4,050	\$ 4,043	\$ 55

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

The following table provides a summary of loans modified in a troubled debt restructuring during the six months ended June 30, 2015 and 2014:

(in thousands)	Number of Contracts	Pre-Modification Outstanding Principal	Period-End Outstanding Principal	Financial Effects (1)
Six months ended June 30, 2015				
Commercial	1	\$ 631	\$ 583	\$
Commercial real estate mortgages	1	418	418	
Residential mortgages:				
Fixed	1	302	301	
Home equity loans and lines of credit	1	87	83	
Total troubled debt restructured loans	4	\$ 1,438	\$ 1,385	\$
Six months ended June 30, 2014				
Commercial	2	\$ 4,098	\$ 3,967	\$
Residential mortgages:				

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Variable	2	4,676	4,669	5
Installment:				
Consumer	1	50	50	50
Total troubled debt restructured loans	5 \$	8,824 \$	8,686 \$	55

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

A restructuring constitutes a troubled debt restructuring when a lender, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Loans with pre-modification outstanding balances totaling \$1.4 million were modified in troubled debt restructurings during the three and six months ended June 30, 2015. Loans with pre-modification outstanding balances totaling \$4.1 million and \$8.8 million were modified in troubled debt restructurings during the three and six months ended June 30, 2014, respectively. The concessions granted in the restructurings completed in 2015 largely consisted of maturity extensions.

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

The unpaid principal balance of TDR loans was \$24.8 million, before specific reserves of \$0.4 million, at June 30, 2015 and \$34.3 million, before specific reserves of \$0.7 million, at December 31, 2014. The net decrease in TDR loans from December 31, 2014 was primarily attributable to payments received on existing TDR loans totaling \$7.8 million and charge-offs totaling \$3.1 million on an existing TDR loan. These decreases were partially offset by additions totaling \$1.4 million. Loans modified in troubled debt restructurings are impaired loans at the time of restructuring and subject to the same measurement criteria as all other impaired loans.

A TDR loan is considered to be in default when payments are 90 days or more past due. The following table provides a summary of TDR loans that subsequently defaulted during the three and six months ended June 30, 2015 that had been modified as a troubled debt restructuring during the 12 months prior to their default. The Company had no TDR loans that subsequently defaulted during the three and six months ended June 30, 2014.

(in thousands)	For three months ended June 30, 2015			For six months ended June 30, 2015		
	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve	Number of Contracts	Period-End Outstanding Principal	Period-End Specific Reserve
Commercial real estate mortgages		\$	\$	1	\$ 69	\$

All other TDR loans were performing in accordance with their restructured terms at June 30, 2015. As of June 30, 2015, there were \$0.3 million of outstanding commitments to lend additional funds on restructured loans.

Past Due and Nonaccrual Loans and Leases

Loans are considered past due following the date when either interest or principal is contractually due and unpaid. The following tables provide a summary of past due and nonaccrual loans, excluding covered loans, at June 30, 2015 and December 31, 2014 based upon the length of time the loans have been past due:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
June 30, 2015							
Commercial	\$ 6,493	\$ 4,498	\$ 32	\$ 8,337	\$ 19,360	\$ 10,042,375	\$ 10,061,735
Commercial real estate mortgages	3,177	1,882		2,726	7,785	3,843,130	3,850,915
Residential mortgages:							
Fixed		519		10,500	11,019	1,496,702	1,507,721
Variable		1,050	2,172	588	3,810	3,978,844	3,982,654
Total residential mortgages		1,569	2,172	11,088	14,829	5,475,546	5,490,375
Real estate construction:							

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Construction						850,560		850,560
Land			3,460		3,460	23,818		27,278
Total real estate construction			3,460		3,460	874,378		877,838
Home equity loans and lines of credit		240		50		3,371		3,661
Installment:								
Commercial								236
Consumer		229		145		480		29
Total installment		229		145		480		29
Lease financing				21		4		25
Total	\$	9,899	\$	8,355	\$	2,734	\$	29,015
							\$	50,003
								21,879,325
								\$ 21,929,328

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

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Nonaccrual	Total Past Due and Nonaccrual Loans	Current	Total Loans and Leases
December 31, 2014							
Commercial	\$ 8,462	\$ 325	\$ 148	\$ 15,096	\$ 24,031	\$ 9,336,945	\$ 9,360,976
Commercial real estate mortgages	693			3,575	4,268	3,535,435	3,539,703
Residential mortgages:							
Fixed		309	921	10,365	11,595	1,390,357	1,401,952
Variable		1,165		1,578	2,743	3,702,108	3,704,851
Total residential mortgages		1,474	921	11,943	14,338	5,092,465	5,106,803
Real estate construction:							
Construction						686,990	686,990
Land				6,598	6,598	16,636	23,234
Total real estate construction				6,598	6,598	703,626	710,224
Home equity loans and lines of credit		39	100	4,864	5,003	780,793	785,796
Installment:							
Commercial						298	298
Consumer	324	113	346	84	867	183,448	184,315
Total installment	324	113	346	84	867	183,746	184,613
Lease financing	321	152		7	480	648,611	649,091
Total	\$ 9,800	\$ 2,103	\$ 1,515	\$ 42,167	\$ 55,585	\$ 20,281,621	\$ 20,337,206

Credit Quality Monitoring

The Company closely monitors and assesses credit quality and credit risk in the loan and lease portfolio on an ongoing basis. Loan risk classifications are continuously reviewed and updated. The following table provides a summary of the loan and lease portfolio, excluding covered loans, by loan type and credit quality classification as of June 30, 2015 and December 31, 2014. Nonclassified loans generally include those loans that are expected to be repaid in accordance with contractual loan terms. Classified loans are those loans that are classified as substandard or doubtful consistent with regulatory guidelines.

(in thousands)	June 30, 2015			December 31, 2014		
	Nonclassified	Classified	Total	Nonclassified	Classified	Total
Commercial	\$ 9,986,445	\$ 75,290	\$ 10,061,735	\$ 9,304,636	\$ 56,340	\$ 9,360,976
Commercial real estate mortgages	3,793,933	56,982	3,850,915	3,511,229	28,474	3,539,703
Residential mortgages:						
Fixed	1,486,910	20,811	1,507,721	1,375,175	26,777	1,401,952
Variable	3,953,181	29,473	3,982,654	3,675,723	29,128	3,704,851
Total residential mortgages	5,440,091	50,284	5,490,375	5,050,898	55,905	5,106,803
Real estate construction:						
Construction	850,560		850,560	679,744	7,246	686,990
Land	21,471	5,807	27,278	16,636	6,598	23,234
	872,031	5,807	877,838	696,380	13,844	710,224

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Total real estate
construction

Home equity loans and lines of credit	759,062	28,355	787,417	754,694	31,102	785,796
Installment:						
Commercial	236		236	298		298
Consumer	198,651	696	199,347	183,190	1,125	184,315
Total installment	198,887	696	199,583	183,488	1,125	184,613
Lease financing	658,933	2,532	661,465	645,049	4,042	649,091
Total	\$ 21,709,382	\$ 219,946	\$ 21,929,328	\$ 20,146,374	\$ 190,832	\$ 20,337,206

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

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

(in thousands)	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014	2014	2015	2014	2014
Balance, beginning of period	\$ 9,752	\$ 18,439	\$ 15,922	\$ 8,608	\$ 15,922	\$ 15,922
(Reversal of) provision for losses	1,091	(1,461)	3,194	1,588	3,194	3,194
Change in allowance due to loan removals	(2,768)	(7,875)	(10,013)	(2,121)	(10,013)	(10,013)
Balance, end of period	\$ 8,075	\$ 9,103	\$ 9,103	\$ 8,075	\$ 9,103	\$ 9,103

The allowance for losses on covered loans was \$8.1 million, \$8.6 million and \$9.1 million as of June 30, 2015, December 31, 2014 and June 30, 2014, respectively. The Company recorded provision expense of \$1.1 million and \$1.6 million during the three and six months ended June 30, 2015, respectively. The Company recorded a \$1.5 million reversal of provision for loan losses and provision expense of \$3.2 million during the three and six months ended June 30, 2014, respectively. The Company updates its cash flow projections for covered loans accounted for under ASC 310-30 on a quarterly basis, and may recognize provision expense or reversal of provision for loan losses as a result of that analysis. The provision expense or reversal of provision for losses on covered loans is the result of changes in expected cash flows, both amount and timing, due to actual loan performance and the Company's revised loan loss and prepayment forecasts. The revisions of these forecasts were based on the results of management's review of market conditions, the credit quality of outstanding covered loans and the analysis of loan performance data since the acquisition of covered loans. The allowance for losses on covered loans is adjusted for any loan removals, which occur when a loan has been fully paid off, fully charged off, sold or transferred to OREO.

Covered loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. There were no covered loans that were on nonaccrual status as of June 30, 2015 and December 31, 2014.

At June 30, 2015, covered loans that were 30 to 89 days delinquent totaled \$4.9 million and covered loans that were 90 days or more past due on accrual status totaled \$21.1 million. At December 31, 2014, covered loans that were 30 to 89 days delinquent totaled \$7.4 million and covered loans that were 90 days or more past due on accrual status totaled \$28.3 million.

Note 6. Other Real Estate Owned

The following table provides a summary of OREO activity for the three months ended June 30, 2015 and 2014:

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(in thousands)	For the three months ended June 30, 2015			For the three months ended June 30, 2014		
	Non-Covered OREO	Covered OREO	Total	Non-Covered OREO	Covered OREO	Total
Balance, beginning of period	\$ 5,957	\$ 11,552	\$ 17,509	\$ 9,412	\$ 24,855	\$ 34,267
Additions		2,830	2,830	110	1,987	2,097
Sales		(2,994)	(2,994)	(5,253)	(7,964)	(13,217)
Valuation adjustments		(77)	(77)		(934)	(934)
Balance, end of period	\$ 5,957	\$ 11,311	\$ 17,268	\$ 4,269	\$ 17,944	\$ 22,213

Table of Contents**Note 6. Other Real Estate Owned (Continued)**

The following table provides a summary of OREO activity for the six months ended June 30, 2015 and 2014:

(in thousands)	For the six months ended June 30, 2015			For the six months ended June 30, 2014		
	Non-Covered OREO	Covered OREO	Total	Non-Covered OREO	Covered OREO	Total
Balance, beginning of period	\$ 10,736	\$ 12,760	\$ 23,496	\$ 12,611	\$ 25,481	\$ 38,092
Additions		3,915	3,915	111	4,020	4,131
Sales	(4,779)	(3,625)	(8,404)	(8,439)	(10,468)	(18,907)
Valuation adjustments		(1,739)	(1,739)	(14)	(1,089)	(1,103)
Balance, end of period	\$ 5,957	\$ 11,311	\$ 17,268	\$ 4,269	\$ 17,944	\$ 22,213

At June 30, 2015, OREO was \$17.3 million and included \$11.3 million of covered OREO. At December 31, 2014, OREO was \$23.5 million and included \$12.8 million of covered OREO. The balance of OREO at June 30, 2015 and December 31, 2014 is net of valuation allowances of \$3.3 million and \$7.4 million, respectively. At June 30, 2015, the Company's recorded investment in residential mortgage loans, excluding covered loans, for which foreclosure proceedings had been initiated totaled \$7.2 million.

Covered OREO expenses and valuation write-downs are recorded in the noninterest expense section of the consolidated statements of income and gains or losses on sale of covered OREO are recognized in the noninterest income section. Under the loss-sharing agreements, 80 percent of eligible covered OREO expenses, valuation write-downs, and losses on sales are reimbursable to the Company from the FDIC, and 80 percent of covered gains on sales are payable to the FDIC. The portion of these expenses and income shared with the FDIC is recorded in FDIC loss sharing income (expense), net in the noninterest income section of the consolidated statements of income.

Note 7. Borrowed Funds

Short-term borrowings consist of funds with remaining maturities of one year or less, and long-term debt consists of borrowings with remaining maturities greater than one year. The components of short-term borrowings and long-term debt as of June 30, 2015 and December 31, 2014 are provided below:

(in thousands) (1)	June 30, 2015	December 31, 2014
Short-term borrowings		
Federal funds purchased	\$	\$ 320,000
Current portion of nonrecourse debt (2)	6,322	2,861
Total short-term borrowings	\$ 6,322	\$ 322,861
Long-term debt		
Senior notes:		

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City National Corporation - 5.25% Senior Notes Due September 2020	\$	299,578	\$	299,540
Subordinated debt:				
City National Bank - 9.00% Subordinated Notes Due August 2019		75,000		75,000
City National Bank - 5.375% Subordinated Notes Due July 2022		149,995		149,994
Junior subordinated debt:				
Floating Rate Business Bancorp Capital Trust I Securities due November 2034 (3)		5,155		5,155
Nonrecourse debt (2)		101,220		99,139
Other long-term debt (4)		9,669		9,772
Total long-term debt	\$	640,617	\$	638,600

-
- (1) The carrying value of certain borrowed funds is net of discount which is being amortized into interest expense.
 - (2) Nonrecourse debt bears interest at an average rate of 3.84 percent as of June 30, 2015 and has maturity dates ranging from September 2015 to February 2023.
 - (3) These floating rate securities bear interest of three-month LIBOR plus 1.965 percent which is reset quarterly. As of June 30, 2015, the interest rate was approximately 2.25 percent.
 - (4) Other long-term debt includes a note payable that bears a fixed interest rate of 5.64 percent and is scheduled to mature in June 2017.

Table of Contents**Note 7. Borrowed Funds (Continued)**

The Company holds debt affiliated with First American Equipment Finance (FAEF), its wholly-owned equipment finance subsidiary. FAEF assigns the future rentals of certain lease financing loans to financial institutions on a nonrecourse basis at fixed interest rates. In return for future minimum lease rentals assigned, FAEF receives a discounted cash payment. Proceeds from discounting are reflected in the table above as nonrecourse debt.

Note 8. Shareholders Equity

The components of AOCI at June 30, 2015 and December 31, 2014 are as follows:

(in thousands)	June 30, 2015	December 31, 2014
Net unrealized loss on securities available-for-sale	\$ (1,749)	\$ (7,070)
Foreign currency translation adjustments	(11)	(4)
Total accumulated other comprehensive loss	\$ (1,760)	\$ (7,074)

The following table presents the tax effects allocated to each component of other comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014:

(in thousands)	For the three months ended June 30, 2015			For the three months ended June 30, 2014		
	Pre-tax	Tax expense (benefit)	Net-of-tax	Pre-tax	Tax expense (benefit)	Net-of-tax
Securities available-for-sale:						
Net unrealized (losses) gains arising during the period	\$ (11,011)	\$ (4,605)	\$ (6,406)	\$ 16,820	\$ 7,056	\$ 9,764
Reclassification adjustment for net gains included in net income (1)	(306)	(128)	(178)	(5,359)	(2,242)	(3,117)
Non-credit related impairment loss	(363)	(152)	(211)	(317)	(133)	(184)
Total securities available-for-sale	(11,680)	(4,885)	(6,795)	11,144	4,681	6,463
Foreign currency translation adjustments	4		4			
Total other comprehensive (loss) income	\$ (11,676)	\$ (4,885)	\$ (6,791)	\$ 11,144	\$ 4,681	\$ 6,463

(in thousands)	For the six months ended June 30, 2015			For the six months ended June 30, 2014		
	Pre-tax	Tax expense (benefit)	Net-of-tax	Pre-tax	Tax expense (benefit)	Net-of-tax
Securities available-for-sale:						
Net unrealized gains arising during the period	\$ 13,238	\$ 5,559	\$ 7,679	\$ 38,348	\$ 16,031	\$ 22,317

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Reclassification adjustment for net gains included in net income (1)	(3,691)	(1,544)	(2,147)	(7,551)	(3,159)	(4,392)
Non-credit related impairment loss	(363)	(152)	(211)	(317)	(133)	(184)
Total securities available-for-sale	9,184	3,863	5,321	30,480	12,739	17,741
Foreign currency translation adjustments	(7)		(7)			
Total other comprehensive income	\$ 9,177	\$ 3,863	\$ 5,314	\$ 30,480	\$ 12,739	\$ 17,741

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

Table of Contents**Note 8. Shareholders Equity (Continued)**

The following table summarizes the Company's share repurchases for the three months ended June 30, 2015. All repurchases relate to shares withheld or previously owned shares used to pay taxes due upon vesting of restricted stock. There were no issuer repurchases of the Corporation's common stock as part of its repurchase plan for the three months ended June 30, 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share
April 1, 2015 to April 30, 2015		\$
May 1, 2015 to May 31, 2015		
June 1, 2015 to June 30, 2015	628	92.62
Total share repurchases	628	92.62

Note 9. Earnings per Common Share

The Company applies the two-class method of computing basic and diluted earnings per common share (EPS). Under the two-class method, EPS is determined for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The Company grants restricted stock and restricted stock units under a share-based compensation plan that qualify as participating securities. The computation of basic and diluted EPS for the three and six months ended June 30, 2015 and 2014 is presented in the following table:

(in thousands, except per share amounts) (1)	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Basic EPS:				
Net income attributable to City National Corporation	\$ 68,499	\$ 65,461	\$ 130,065	\$ 119,291
Less: Dividends on preferred stock	4,094	4,094	8,188	8,188
Net income available to common shareholders	\$ 64,405	\$ 61,367	\$ 121,877	\$ 111,103
Less: Earnings allocated to participating securities	561	614	1,092	1,153
Earnings allocated to common shareholders	\$ 63,844	\$ 60,753	\$ 120,785	\$ 109,950
Weighted-average common shares outstanding	55,748	54,957	55,586	54,824
Basic earnings per common share	\$ 1.15	\$ 1.11	\$ 2.17	\$ 2.01
Diluted EPS:				
Earnings allocated to common shareholders (2)	\$ 63,850	\$ 60,759	\$ 120,797	\$ 109,959
Weighted-average common shares outstanding	55,748	54,957	55,586	54,824
Dilutive effect of equity awards	915	675	898	717
Weighted-average diluted common shares outstanding	56,663	55,632	56,484	55,541
Diluted earnings per common share	\$ 1.13	\$ 1.09	\$ 2.14	\$ 1.98

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- (1) Certain prior period amounts have been adjusted to reflect the adoption of ASU 2014-01. See Note 1, *Summary of Significant Accounting Policies*, for further discussion.
- (2) Earnings allocated to common shareholders for basic and diluted EPS may differ under the two-class method as a result of adding common stock equivalents for options to dilutive shares outstanding, which alters the ratio used to allocate earnings to common shareholders and participating securities for the purposes of calculating diluted EPS.

The average price of the Company's common stock for the period is used to determine the dilutive effect of outstanding stock options. Antidilutive stock options are not included in the calculation of diluted EPS. There were 0.4 million and 1.1 million average outstanding stock options that were antidilutive for the three months ended June 30, 2015 and 2014, respectively. There were 0.3 million and 0.7 million average outstanding stock options that were antidilutive for the six months ended June 30, 2015 and 2014, respectively.

Table of Contents**Note 10. Share-Based Compensation**

On June 30, 2015, the Company had one share-based compensation plan, the Amended and Restated City National Corporation 2008 Omnibus Plan (the Plan), which was originally approved by the Company's shareholders on April 23, 2008. No new awards have been or will be granted under predecessor plans since the adoption of the Plan. The Plan permits the grant of stock options, restricted stock, restricted stock units, cash-settled restricted stock units, performance shares, performance share units, performance units and stock appreciation rights, or any combination thereof, to the Company's eligible employees and non-employee directors. No grants of performance shares, performance share units or stock appreciation rights had been made as of June 30, 2015. At June 30, 2015, there were approximately 2.4 million shares available for future grants. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for further discussion of the Company's share-based compensation plan.

The compensation cost that has been recognized for all share-based awards was \$5.0 million and \$11.2 million for the three and six months ended June 30, 2015, respectively, compared with \$5.2 million and \$10.6 million for the three and six months ended June 30, 2014. The total income tax benefit recognized in the consolidated statements of income for share-based compensation arrangements was \$2.1 million and \$4.7 million for the three and six months ended June 30, 2015, respectively, compared with \$2.2 million and \$4.5 million for the three and six months ended June 30, 2014. The Company received \$29.0 million and \$16.4 million in cash for the exercise of stock options during the six months ended June 30, 2015 and 2014, respectively. The actual tax benefit realized for the tax deductions from stock option exercises was \$6.1 million and \$2.2 million for the six months ended June 30, 2015 and 2014, respectively.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Weighted-average volatility	26.48%	27.15%	26.66%	27.35%
Dividend yield	1.53%	1.78%	1.55%	1.79%
Expected term (in years)	5.45	5.46	6.05	6.06
Risk-free interest rate	1.79%	1.92%	1.78%	1.99%

Using the Black-Scholes methodology, the weighted-average grant-date fair values of options granted during the six months ended June 30, 2015 and 2014 were \$21.80 and \$17.93, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2015 and 2014 was \$14.8 million and \$5.2 million, respectively.

A summary of option activity and related information for the six months ended June 30, 2015 is presented below:

Options	Number of Shares (in thousands)	Weighted- Average Exercise Price (per share)	Aggregate Intrinsic Value (in thousands) (1)	Weighted- Average Remaining Contractual Term
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Outstanding at January 1, 2015	3,971	\$	57.40		
Granted	376		90.47		
Exercised	(485)		59.81		
Forfeited or expired	(28)		66.45		
Outstanding at June 30, 2015	3,834	\$	60.27	\$	115,498
Exercisable at June 30, 2015	2,699	\$	55.64	\$	93,793
					4.37

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

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

A summary of changes in unvested options and related information for the six months ended June 30, 2015 is presented below:

Unvested Options	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value (per share)
Unvested at January 1, 2015	1,269	\$ 14.80
Granted	376	21.80
Vested	(492)	14.82
Forfeited	(18)	14.96
Unvested at June 30, 2015	1,135	\$ 17.11

The number of options vested during the six months ended June 30, 2015 and 2014 was 492,108 and 518,620, respectively. The total fair value of options vested during the six months ended June 30, 2015 and 2014 was \$7.3 million and \$7.6 million, respectively. As of June 30, 2015, there was \$14.8 million of unrecognized compensation cost related to unvested stock options granted under the Company's plans. That cost is expected to be recognized over a weighted-average period of 2.8 years.

A summary of changes in restricted stock and related information for the six months ended June 30, 2015 is presented below:

Restricted Stock (1)	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value (per share)
Unvested at January 1, 2015	525	\$ 60.60
Granted	100	90.47
Vested	(134)	55.04
Forfeited	(5)	66.52
Unvested at June 30, 2015	486	\$ 68.20

(1) Includes restricted stock units.

Restricted stock is valued at the closing price of the Company's stock on the date of award. The weighted-average grant-date fair value of restricted stock granted during the six months ended June 30, 2015 and 2014 was \$90.47 and \$73.63, respectively. The number of restricted shares vested during the six months ended June 30, 2015 and 2014 was 134,480 and 169,028, respectively. The total fair value of restricted stock vested was \$7.4 million during the six months ended June 30, 2015 and 2014. As of June 30, 2015, the unrecognized compensation cost related to restricted stock granted under the Company's plans was \$18.0 million. That cost is expected to be recognized over a weighted-average period of 3.4 years.

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Cash-settled restricted stock units are initially valued at the closing price of the Company's stock on the date of award. They are subsequently remeasured to the closing price of the Company's stock at each reporting date until settlement. A summary of changes in cash-settled restricted stock units for the six months ended June 30, 2015 is presented below:

Cash-Settled Restricted Stock Units	Number of Shares (in thousands)
Unvested at January 1, 2015	174
Granted	14
Vested	(44)
Forfeited	(3)
Unvested at June 30, 2015	141

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

The Company may use interest-rate swaps to mitigate interest-rate risk associated with changes to (1) the fair value of certain fixed-rate deposits and borrowings (fair value hedges) and (2) certain cash flows related to future interest payments on variable rate loans (cash flow hedges). Interest-rate swap agreements involve the exchange of fixed and variable rate interest payments between counterparties based upon a notional principal amount and maturity date. The Company recognizes derivatives as assets or liabilities on the consolidated balance sheets at their fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction. The Company also offers various derivative products to clients and enters into derivative transactions in due course. These transactions are not linked to specific Company assets or liabilities in the consolidated balance sheets or to forecasted transactions in a hedge relationship and, therefore, do not qualify for hedge accounting.

The following table summarizes the fair value and balance sheet classification of derivative instruments as of June 30, 2015 and December 31, 2014. The notional amount of the contract is not recorded on the consolidated balance sheets, but is used as the basis for determining the amount of interest payments to be exchanged between the counterparties. If a counterparty fails to perform, the Company's counterparty credit risk is equal to the amount reported as a derivative asset.

Notional Amounts and Fair Values of Derivative Instruments

(in millions) (1)	Notional Amount	June 30, 2015 Derivative Assets	Derivative Liabilities	Notional Amount	December 31, 2014 Derivative Assets	Derivative Liabilities
Derivatives not designated as hedging instruments						
Interest rate contracts:						
Swaps	\$ 3,431.5	\$ 43.6	\$ 43.9	\$ 3,094.5	\$ 44.7	\$ 45.2
Interest-rate caps, floors and collars	524.2	0.4	0.3	437.3	0.8	0.8
Total interest-rate contracts	3,955.7	44.0	44.2	3,531.8	45.5	46.0
Option contracts				1.9	0.4	
Foreign exchange contracts:						
Spot and forward contracts	983.4	6.6	6.2	802.7	6.1	6.6
Options purchased	3.0	0.1	0.1	3.0	0.1	0.1
Options written	3.0	0.2	0.2	3.0	0.2	0.2
Total foreign exchange contracts	989.4	6.9	6.5	808.7	6.4	6.9
Equity warrants	4.8	1.9		2.3	0.9	
Total derivatives not designated as hedging instruments	\$ 4,949.9	\$ 52.8	\$ 50.7	\$ 4,344.7	\$ 53.2	\$ 52.9

(1) The Company offsets mark-to-market adjustments, interest receivable and interest payable on interest-rate swaps that are executed with the same counterparty under a master netting agreement, and reports the net balance in other assets or other liabilities in the consolidated balance sheets. For purposes of this disclosure, mark-to-market

adjustments, interest receivable and interest payable are presented on a gross basis.

Derivatives Designated as Hedging Instruments

The Company had no hedging instruments as of June 30, 2015 and December 31, 2014.

Derivatives Not Designated as Hedging Instruments

Derivative contracts not designated as hedges are composed primarily of interest-rate contracts with certain commercial clients that are largely offset by paired trades with unrelated bank counterparties. The Company also enters into foreign exchange contracts with its clients and counterparty banks primarily for the purpose of offsetting or hedging the clients' transaction and economic exposures arising out of commercial transactions. The Company also obtains equity warrants in association with certain lending transactions. Derivative contracts not designated as hedges are carried at fair value each reporting period with changes in fair value recorded as a part of Noninterest income in the consolidated statements of income.

Table of Contents**Note 11. Derivative Instruments (Continued)**

The table below provides the amount of gains and losses on these derivative contracts for the three and six months ended June 30, 2015 and 2014:

(in millions) Derivatives Not Designated as Hedging Instruments	Location in Consolidated Statements of Income	For the three months ended June 30,		For the six months ended June 30,	
		2015	2014	2015	2014
Interest-rate contracts	Other noninterest income	\$ 1.1	\$ (0.5)	\$ 0.4	\$ (1.0)
Option contracts	Other noninterest income		(0.1)	(0.1)	
Foreign exchange contracts (1)	International services income	8.3	8.2	15.8	15.4
Equity warrants	Other noninterest income	0.1	0.1	0.1	0.1
Total income		\$ 9.5	\$ 7.7	\$ 16.2	\$ 14.5

(1) Includes spread and translation gains (losses) on foreign exchange spot, forward and option contracts.

In the course of negotiating credit facilities, the Company may obtain rights to acquire stock in the form of equity warrants in primarily private, venture-backed technology companies. The warrants grant the Company an option to purchase a specific number of shares of stock in the underlying company at a specific price within a specific time period. The warrant agreements typically contain a net share settlement provision (cashless exercise) which gives the Company the option to receive at exercise a number of shares equal to the intrinsic value of the warrant divided by the share price. Equity warrants are accounted for as derivatives under ASC Topic 815, *Derivatives and Hedging*, and are recorded as derivative assets at their estimated fair value on the grant date. The warrant portfolio is reviewed quarterly for changes in fair value. Subsequent changes in the fair value of warrants are recognized in Other noninterest income in the consolidated statements of income. If a warrant is exercised or paid out for cash, the gain is recorded in Other noninterest income in the consolidated statements of income.

Credit Risk Exposure and Collateral

The Company's swap agreements require the deposit of cash or marketable debt securities as collateral based on certain risk thresholds. These requirements apply individually to the Corporation and to the Bank. Additionally, certain of the Company's swap contracts contain security agreements that include credit-risk-related contingent features. Under these agreements, the collateral requirements are based on the Company's credit rating from the major credit rating agencies. The amount of collateral required may vary by counterparty based on a range of credit ratings that correspond with exposure thresholds established in the derivative agreements. If the credit ratings on the Company's debt were to fall below the level associated with a particular exposure threshold and the derivatives with a counterparty are in a net liability position that exceeds that threshold, the counterparty could request immediate payment or delivery of collateral for the difference between the net liability amount and the exposure threshold. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position on June 30, 2015 was \$14.4 million. The Company delivered collateral in the form of securities valued at \$5.4 million on swap agreements that had credit-risk-related contingent features and were in a net liability position at June 30, 2015.

The Company's interest-rate swaps had no credit risk exposure at June 30, 2015 and December 31, 2014, respectively. The credit exposure represents the cost to replace, on a present value basis and at current market rates, all contracts by trading counterparty having an aggregate positive market value, net of margin collateral received. The Company enters into master netting agreements with swap counterparties to

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mitigate credit risk. Under these agreements, the net amount due from or payable to each counterparty is settled on the contract payment date. No collateral had been received from swap counterparties at June 30, 2015 and December 31, 2014. The Company delivered collateral in the form of securities valued at \$5.6 million and cash totaling \$33.9 million on swap agreements that did not have credit-risk-related contingent features at June 30, 2015.

At June 30, 2015 the Company had delivered cash collateral on foreign exchange contracts totaling \$1.1 million.

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

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

Assets and liabilities relating to certain financial instruments, including derivatives, securities purchased under resale agreements (reverse repurchase agreements) and securities sold under repurchase agreements (repurchase agreements), may be eligible for offset in the consolidated balance sheet as permitted under accounting guidance. The Company is party to transactions involving derivative instruments that are subject to enforceable master netting arrangements or similar agreements. Under these agreements, the Company may have the right to net settle multiple contracts with the same counterparty. Certain derivative transactions may require the Company to receive or pledge marketable debt securities as collateral based on certain risk thresholds. The Company also enters into reverse repurchase agreements and collateral swap agreements. Under reverse repurchase agreements, the Company has the right to claim securities collateral if the counterparty fails to perform. Collateral swap agreements involve the exchange of securities collateral under simultaneous repurchase and reverse repurchase agreements with the same bank counterparty. These agreements have the same principal amounts, inception dates and maturity dates, and have been offset against each other in the balance sheet as permitted under the netting provisions of ASC Topic 210-20-45, *Balance Sheet Offsetting*. Securities swaps totaled \$500.0 million at June 30, 2015. At June 30, 2015, the Company had delivered collateral consisting of agency mortgage-backed securities with a fair value of approximately \$528.1 million on the repurchase agreement and accepted collateral consisting of corporate and municipal bonds with a fair value of approximately \$527.7 million on the reverse repurchase agreement. Securities that have been pledged by counterparties as collateral are not recorded in the Company's consolidated balance sheet unless the counterparty defaults. Securities that have been pledged by the Company to counterparties continue to be reported in the Company's consolidated balance sheet unless the Company defaults.

The Company also offers various derivative products to clients and enters into derivative transactions in due course. These derivative contracts are offset by paired trades with unrelated bank counterparties. Certain derivative transactions with clients are not subject to master netting arrangements and have been excluded from the balance sheet offsetting table below.

The following table provides information about financial instruments that are eligible for offset at June 30, 2015 and December 31, 2014:

(in thousands)	Gross Amount Recognized	Gross Amount Offset	Net Amount Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet Securities Collateral	Cash Collateral	Net Amount
June 30, 2015						
Financial assets:						
Reverse repurchase agreements	\$ 700,150	\$ (500,046)	\$ 200,104	\$ (200,000)		\$ 104
Derivatives not designated as hedging instruments	7,706	(1,109)	6,597			6,597
Total financial assets	\$ 707,856	\$ (501,155)	\$ 206,701	\$ (200,000)		\$ 6,701
Financial liabilities:						
Repurchase agreements	\$ 500,046	\$ (500,046)				
Derivatives not designated as hedging instruments	49,404	(1,109)	48,295	(10,964)	(32,187)	5,144
Total financial liabilities	\$ 549,450	\$ (501,155)	\$ 48,295	\$ (10,964)	\$ (32,187)	\$ 5,144
December 31, 2014						
Financial assets:						
Reverse repurchase agreements	\$ 700,149	\$ (500,041)	\$ 200,108	\$ (200,000)		\$ 108
Derivatives not designated as hedging instruments	7,669	(1,562)	6,107			6,107

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Total financial assets	\$	707,818	\$	(501,603)	\$	206,215	\$	(200,000)	\$		\$	6,215
Financial liabilities:												
Repurchase agreements	\$	500,041	\$	(500,041)	\$		\$		\$		\$	
Derivatives not designated as hedging instruments		51,125		(1,562)		49,563		(14,654)		(28,046)		6,863
Total financial liabilities	\$	551,166	\$	(501,603)	\$	49,563	\$	(14,654)	\$	(28,046)	\$	6,863

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Note 13. Income Taxes

The Company recognized income tax expense of \$37.7 million and \$68.3 million for the three and six months ended June 30, 2015, respectively. The Company recognized income tax expense of \$35.1 million and \$66.1 million for the same periods in 2014.

The Company recognizes accrued interest and penalties relating to uncertain tax positions as an income tax provision expense. The Company recognized interest and penalties expense of \$0.2 million for the six months ended June 30, 2015 and a benefit on accrued interest and penalties of \$0.3 million for the same period in 2014. The Company had approximately \$2.6 million and \$2.5 million of accrued interest and penalties as of June 30, 2015 and December 31, 2014, respectively.

The Company and its subsidiaries file federal and various state income tax returns. The Company is currently being audited by the Internal Revenue Service (IRS) for the tax year 2014 and 2015. The Company is also under audit with the California Franchise Tax Board for the tax years 2005 to 2007. The financial statement impact resulting from completion of these audits is not expected to be material.

From time to time, there may be differences in opinion with respect to the tax treatment of certain transactions. If a tax position which was previously recognized on the consolidated financial statements is no longer more likely than not to be sustained upon a challenge from the taxing authorities, the tax benefit from the tax position will be derecognized. The Company did not have any material tax positions for which previously recognized benefits were derecognized during the six-month period ended June 30, 2015.

Prior period income tax expense has been adjusted to reflect the adoption of ASU 2014-01 on January 1, 2015. See Note 1, *Summary of Significant Accounting Policies*, for further discussion of ASU 2014-01.

Note 14. Employee Benefit Plans

Defined Contribution Plan

The Company has a profit-sharing retirement plan with an Internal Revenue Code Section 401(k) feature covering eligible employees. Employer contributions are made annually into a trust fund and are allocated to participants based on their salaries. The profit sharing contribution requirement is based on a percentage of annual operating income subject to a percentage of salary cap. Eligible employees may contribute up to 50 percent of their salary to the 401(k) plan, but not more than the maximum allowed under IRS regulations. The Company matches 50 percent of the first 6 percent of covered compensation. The Company recorded total profit sharing and matching contribution expense of \$6.3 million and \$12.3 million for the three and six months ended June 30, 2015, respectively. Profit sharing and matching contribution expense was \$5.4 million and \$10.7 million for the same periods in 2014, respectively.

Deferred Compensation Plan

The Company offers a deferred compensation plan for eligible employees and non-employee directors. Participants under the employee plan may make an annual irrevocable election to defer a portion of base salary and up to 100 percent of commission and incentive compensation while employed with the Company. Participants under the non-employee director plan also may make an annual irrevocable election to defer all or part of annual retainers, annual awards, committee chair retainers and meeting fees (collectively, directors' fees) until board service with the Company ceases. The deferred compensation plans are nonqualified plans under IRS regulations. Deferrals are made on a pretax basis and are allocated among the investment crediting options available under the plans as directed by the plan participants. The Company informally funds plan benefits through the purchase of life insurance policies which are recorded in Other assets on the consolidated balance sheets. Participant deferrals are recorded in Other liabilities on the consolidated balance sheets. Employee salaries and non-employee directors' fees deferred under the plan are charged to Salaries and employee benefits and Other operating expense, respectively, on the consolidated statements of income. Earnings on plan assets, net of benefits payable to plan participants, are reported in Salaries and employee benefits on the consolidated statements of income. The Company recorded net expense of \$0.5 million and \$0.4 million related to the deferred compensation plan for the three and six months ended June 30, 2015. The Company recorded net expense of \$0.4 million and \$0.5 million for the same periods in 2014, respectively.

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Note 15. Commitments and Contingencies

In the normal course of business, the Company issues financial guarantees in the form of letters of credit. Standby letters of credit are commitments issued by the Company to guarantee the obligations of its client to beneficiaries. Commercial letters of credit are issued on behalf of clients to ensure payment in connection with trade transactions. Exposure to credit loss in the event of nonperformance by the other party to the letters of credit is represented by the contractual notional amount. At June 30, 2015, the Company had \$693.1 million outstanding in letters of credit, of which \$588.3 million relate to standby letters of credit and \$104.8 million relate to commercial letters of credit. The Company had \$718.0 million outstanding in letters of credit at December 31, 2014, of which \$607.6 million relate to standby letters of credit and \$110.4 million relate to commercial letters of credit.

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

The Company entered into contingent consideration arrangements associated with its acquisition of Rochdale and the sale of its retirement services recordkeeping business. Contingent consideration represents additional purchase price consideration to be transferred from the acquirer to the seller if certain future events or conditions are met. See Note 2, *Fair Value Measurements*, for additional information about the contingent consideration asset and liability.

Note 16. Variable Interest Entities

The Company holds ownership interests in certain special-purpose entities formed to provide affordable housing. The Company evaluates its interest in these entities to determine whether they meet the definition of a VIE and whether the Company is required to consolidate these entities. The Company is not the primary beneficiary of the affordable housing VIEs in which it holds interests and is therefore not required to consolidate these entities. The investment in these entities is initially recorded at cost, which approximates the maximum exposure to loss as a result of the Company's involvement with these unconsolidated entities. Subsequently, the carrying value is amortized over the stream of available tax credits and benefits. The Company expects to recover its investments over time, primarily through realization of federal low-income housing tax credits. The balance of the investments in these entities was \$194.4 million and \$186.4 million at June 30, 2015 and December 31, 2014, respectively, and is included in Affordable housing investments in the consolidated balance sheets. Unfunded commitments for affordable housing investments were \$67.8 million at June 30, 2015. These unfunded commitments are recorded in Other liabilities in the consolidated balance sheets.

The Company also has ownership interests in several private equity and alternative investment funds that are VIEs. The Company is not a primary beneficiary and, therefore, is not required to consolidate these VIEs. The investment in these entities is carried at cost and net of impairments, which approximates the maximum exposure to loss as a result of the Company's involvement with these entities. The Company expects to recover its investments over time, primarily through the allocation of fund income, gains or losses on the sale of fund assets, dividends or interest income. The balance in these entities was \$27.5 million and \$29.2 million at June 30, 2015 and December 31, 2014, respectively, and is included in Other assets in the consolidated balance sheets. Income associated with these investments is reported in Other noninterest income in the consolidated statements of income.

Note 17. Noncontrolling Interest

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

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

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

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

As of June 30, 2015, affiliate noncontrolling owners held equity interests with an estimated fair value of \$37.8 million. This estimate reflects the maximum obligation to purchase equity interests in the affiliates. The events which would require the Company to purchase the equity interests may occur in the near term or over a longer period of time. The terms of the put provisions vary by agreement, but the value of the put is at the approximate fair value of the interests. The parent company carries key man life insurance policies to fund a portion of these conditional purchase obligations in the event of the death of certain key holders.

The following is a summary of activity for redeemable noncontrolling interest for the six months ended June 30, 2015 and 2014:

(in thousands)	For the six months ended			
	June 30,		2014	
	2015		2014	
Balance, beginning of period	\$	39,978	\$	39,768
Net income		1,033		1,209
Distributions to redeemable noncontrolling interest		(1,895)		(1,854)
Additions and redemptions, net		(2,796)		(75)
Adjustments to fair value		1,435		7,501
Balance, end of period	\$	37,755	\$	46,549

Note 18. Segment Results

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

The Commercial and Private Banking reportable segment is the aggregation of the Commercial and Private Banking, Real Estate, Entertainment, Corporate Banking, Core Branch Banking and FAEF operating segments, as well as the covered loan portfolio. The Commercial and Private Banking segment provides banking products and services, including commercial and mortgage lending, lines of credit, equipment lease financing, deposits, cash management services, international trade finance and letters of credit to small and medium-sized businesses, entrepreneurs and affluent individuals. This segment primarily serves clients in California, New York, Nevada, Tennessee and Georgia. FAEF

serves clients nationwide.

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

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Note 18. Segment Results (Continued)

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

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

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

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

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

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

(in thousands)	For the three months ended June 30, 2015				Consolidated Company
	Commercial and Private Banking	Wealth Management	Other		
Earnings Summary:					
Net interest income	\$ 227,792	\$ 647	\$ 8,071	\$	236,510
Provision for credit losses on loans and leases, excluding covered loans	10,000				10,000
Provision for losses on covered loans	1,091				1,091
Noninterest income	55,546	70,329	(12,971)		112,904
Depreciation and amortization	2,492	1,921	6,321		10,734
Noninterest expense	185,756	56,248	(21,078)		220,926
Income before income taxes	83,999	12,807	9,857		106,663
Provision for income taxes	29,811	4,375	3,498		37,684
Net income	54,188	8,432	6,359		68,979
Less: Net income attributable to noncontrolling interest		480			480
Net income attributable to City National Corporation	\$ 54,188	\$ 7,952	\$ 6,359	\$	68,499

Selected Average Balances:

Loans and leases, excluding covered loans	\$ 21,221,481	\$ 255	\$ 59,732	\$	21,281,468
Covered loans	455,406				455,406
Total assets	21,747,378	741,824	10,391,313		32,880,515
Deposits	28,434,220	98,144	90,959		28,623,323
Goodwill	393,177	242,995			636,172
Customer-relationship intangibles, net	1,419	31,464			32,883

(in thousands)	For the three months ended June 30, 2014				Consolidated Company
	Commercial and Private Banking	Wealth Management	Other		
Earnings Summary:					
Net interest income	\$ 208,340	\$ 474	\$ 10,288	\$	219,102
Reversal of provision for credit losses on loans and leases, excluding covered loans	(1,000)				(1,000)
Reversal of provision for losses on covered loans	(1,461)				(1,461)
Noninterest income	38,511	68,729	(6,141)		101,099
Depreciation and amortization	2,774	1,766	4,799		9,339
Noninterest expense	174,324	56,836	(18,917)		212,243
Income before income taxes	72,214	10,601	18,265		101,080
Provision for income taxes	25,210	3,523	6,376		35,109
Net income	47,004	7,078	11,889		65,971
Less: Net income attributable to noncontrolling interest		510			510
Net income attributable to City National Corporation	\$ 47,004	\$ 6,568	\$ 11,889	\$	65,461

Selected Average Balances:

Loans and leases, excluding covered loans	\$ 17,901,508	\$	\$ 57,683	\$	17,959,191
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Covered loans	643,690			643,690
Total assets	18,705,693	693,473	10,566,732	29,965,898
Deposits	25,584,025	73,784	254,272	25,912,081
Goodwill	393,177	249,445		642,622
Customer-relationship intangibles, net	2,692	35,778		38,470

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

(in thousands)	For the six months ended June 30, 2015				Consolidated Company
	Commercial and Private Banking	Wealth Management	Other		
Earnings Summary:					
Net interest income	\$ 436,013	\$ 1,457	\$ 15,620	\$	\$ 453,090
Provision for credit losses on loans and leases, excluding covered loans	10,000				10,000
Provision for losses on covered loans	1,588				1,588
Noninterest income	107,043	145,418	(28,482)		223,979
Depreciation and amortization	5,206	3,783	18,104		27,093
Noninterest expense	375,486	111,003	(47,480)		439,009
Income before income taxes	150,776	32,089	16,514		199,379
Provision for income taxes	51,905	10,691	5,685		68,281
Net income	98,871	21,398	10,829		131,098
Less: Net income attributable to noncontrolling interest		1,033			1,033
Net income attributable to City National Corporation	\$ 98,871	\$ 20,365	\$ 10,829	\$	\$ 130,065

Selected Average Balances:

Loans and leases, excluding covered loans	\$ 20,787,046	\$ 287	\$ 58,183	\$	\$ 20,845,516
Covered loans	473,819				473,819
Total assets	21,355,970	743,487	10,472,326		32,571,783
Deposits	27,994,486	93,025	130,593		28,218,104
Goodwill	393,177	242,844			636,021
Customer-relationship intangibles, net	1,534	31,996			33,530

(in thousands)	For the six months ended June 30, 2014				Consolidated Company
	Commercial and Private Banking	Wealth Management	Other		
Earnings Summary:					
Net interest income	\$ 398,078	\$ 802	\$ 20,020	\$	\$ 418,900
Reversal of provision for credit losses on loans and leases, excluding covered loans	(1,000)				(1,000)
Provision for losses on covered loans	3,194				3,194
Noninterest income	84,592	132,129	(14,374)		202,347
Depreciation and amortization	5,595	3,513	9,546		18,654
Noninterest expense	341,180	109,039	(36,439)		413,780
Income before income taxes	133,701	20,379	32,539		186,619
Provision for income taxes	47,679	6,836	11,604		66,119
Net income	86,022	13,543	20,935		120,500
Less: Net income attributable to noncontrolling interest		1,209			1,209
Net income attributable to City National Corporation	\$ 86,022	\$ 12,334	\$ 20,935	\$	\$ 119,291

Selected Average Balances:

Loans and leases, excluding covered loans	\$ 17,594,167	\$	\$ 56,353	\$	\$ 17,650,520
Covered loans	669,781				669,781

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Total assets	18,473,951	675,663	10,541,858	29,691,472
Deposits	25,319,356	80,738	243,238	25,643,332
Goodwill	393,177	249,445		642,622
Customer-relationship intangibles, net	2,912	36,346		39,258

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS
OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

We have made forward-looking statements in this document about the Company, for which the Company claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are based on management's knowledge and belief as of today and include information concerning the Company's possible or assumed future financial condition, and its results of operations, business and earnings outlook. These forward-looking statements are subject to risks and uncertainties. A number of factors, many of which are beyond the Company's ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. These factors include: (1) the possibility that the Merger does not close when expected or at all because required regulatory or other approvals are not received or other conditions to the closing are not satisfied on a timely basis or at all, or that we experience difficulties in employee retention as a result of the announcement and pendency of the proposed Merger; or that clients, distributors, suppliers and competitors seek to change their existing business relationships with us as a result of the announcement of the proposed Merger, any of which may have a negative impact on our business or operations; (2) changes in general economic, political, or industry conditions and the related credit and market conditions and the impact they have on the Company and its clients, including changes in consumer spending, borrowing and savings habits; (3) the impact on financial markets and the economy of the level of U.S. and European debt; (4) the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System; (5) limited economic growth and elevated levels of unemployment; (6) the effect of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the rules and regulations to be promulgated by supervisory and oversight agencies implementing the new legislation, taking into account that the precise timing, extent and nature of such rules and regulations and the impact on the Company is uncertain; (7) significant changes in applicable laws and regulations, including those concerning taxes, banking and securities; (8) the impact of cyber security attacks or other disruptions to the Company's information systems and any resulting compromise of data or disruption in service; (9) changes in the level of nonperforming assets, charge-offs, other real estate owned and provision expense; (10) incorrect assumptions in the value of the loans acquired in FDIC-assisted acquisitions resulting in greater than anticipated losses in the acquired loan portfolios exceeding the losses covered by the loss-sharing agreements with the FDIC; (11) changes in inflation, interest rates, and market liquidity which may impact interest margins and impact funding sources; (12) the Company's ability to attract new employees and retain and motivate existing employees; (13) increased competition in the Company's markets and our ability to increase market share and control expenses; (14) changes in the financial performance and/or condition of the Company's clients, or changes in the performance or creditworthiness of our clients' suppliers or other counterparties, which could lead to decreased loan utilization rates, delinquencies, or defaults and could negatively affect our clients' ability to meet certain credit obligations; (15) a substantial and permanent loss of either client accounts and/or assets under management at the Company's investment advisory affiliates or its wealth management division; (16) soundness of other financial institutions which could adversely affect the Company; (17) protracted labor disputes in the Company's markets; (18) the impact of natural disasters, terrorist activities or international hostilities on the operations of our business or the value of collateral; (19) the effect of acquisitions and integration of acquired businesses and de novo branching efforts; (20) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or regulatory agencies; and (21) the success of the Company at managing the risks involved in the foregoing.

Forward-looking statements speak only as of the date they are made, and the Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the statements are made, or to update earnings guidance, including the factors that influence earnings.

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For a more complete discussion of these risks and uncertainties, see the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and particularly, Item 1A, titled "Risk Factors."

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CITY NATIONAL CORPORATION

FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts) (1)	At or for the three months ended			Percent change June 30, 2015 from	
	June 30, 2015 (Unaudited)	March 31, 2015 (Unaudited)	June 30, 2014 (Unaudited)	March 31, 2015	June 30, 2014
For The Quarter					
Total revenue	\$ 349,414	\$ 327,655	\$ 320,201	7%	9%
Net income attributable to City National Corporation	68,499	61,566	65,461	11	5
Net income available to common shareholders	64,405	57,472	61,367	12	5
Net income per common share, basic	1.15	1.03	1.11	12	4
Net income per common share, diluted	1.13	1.01	1.09	12	4
Dividends per common share	0.35	0.35	0.33		6
At Quarter End					
Assets	\$ 33,760,498	\$ 32,698,899	\$ 30,805,230	3	10
Securities	8,473,158	8,726,740	8,832,942	(3)	(4)
Loans and leases, excluding covered loans	21,929,328	20,910,355	18,474,788	5	19
Covered loans (2)	434,033	480,236	605,770	(10)	(28)
Deposits	29,481,230	28,517,148	26,651,525	3	11
Common shareholders' equity	2,804,532	2,750,754	2,571,675	2	9
Total shareholders' equity	3,072,148	3,018,370	2,839,291	2	8
Book value per common share	50.67	49.84	47.12	2	8
Average Balances					
Assets	\$ 32,880,515	\$ 32,259,619	\$ 29,965,898	2	10
Securities	8,480,316	9,091,506	8,668,011	(7)	(2)
Loans and leases, excluding covered loans	21,281,468	20,404,720	17,959,191	4	18
Covered loans (2)	455,406	492,438	643,690	(8)	(29)
Deposits	28,623,323	27,808,383	25,912,081	3	10
Common shareholders' equity	2,787,105	2,711,589	2,549,506	3	9
Total shareholders' equity	3,054,721	2,979,205	2,817,122	3	8
Selected Ratios					
Return on average assets (annualized)	0.84%	0.77%	0.88%	9	(5)
Return on average common equity (annualized)	9.27	8.60	9.65	8	(4)
Common equity tier 1 capital (3)	8.60	8.71	N/A	(1)	NM
Corporation's tier 1 risk-based capital (3)	9.67	9.82	10.00	(2)	NM
Corporation's total risk-based capital (3)	11.70	11.87	12.81	(1)	NM
Corporation's tier 1 leverage (3)	7.56	7.53	7.43	0	NM
Period-end common equity to period-end assets	8.31	8.41	8.35	(1)	(0)
Period-end equity to period-end assets	9.10	9.23	9.22	(1)	(1)
Common dividend payout ratio	30.57	34.01	29.85	(10)	2
Net interest margin	3.16	2.99	3.21	6	(2)
Expense to revenue ratio (4)	64.63	69.21	67.24	(7)	(4)
Asset Quality Ratios (5)					
Nonaccrual loans to total loans and leases	0.13%	0.16%	0.35%	(19)	(63)
Nonaccrual loans and OREO to total loans and leases and OREO	0.16	0.19	0.37	(16)	(57)
	1.45	1.48	1.68	(2)	(14)

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Allowance for loan and lease losses to total loans and leases

Allowance for loan and lease losses to nonaccrual loans	1,092.27	925.39	480.50	18	127
Net charge-offs to average total loans and leases (annualized)	(0.01)	(0.01)	(0.08)		(88)

At Quarter End

Assets under management (6)	\$ 47,748,516	\$ 48,446,050	\$ 47,123,652	(1)	1
Assets under management or administration (6)	61,083,403	61,950,516	65,780,023	(1)	(7)

NM - Not meaningful

(1) Certain prior period amounts have been adjusted to reflect the adoption of Accounting Standards Update (ASU) 2014-01. See Note 1, *Summary of Significant Accounting Policies*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion.

(2) Covered loans represent acquired loans that are covered under loss-sharing agreements with the Federal Deposit Insurance Corporation (FDIC).

(3) Risk-based capital ratios for 2015 were calculated under Basel III rules, which became effective for the Company on January 1, 2015. Ratios for 2014 were calculated under Basel I rules. See *Balance Sheet Analysis - Capital* included elsewhere in this report for further discussion.

(4) The expense to revenue ratio is defined as noninterest expense excluding other real estate owned (OREO) expense divided by total net interest income on a fully taxable-equivalent basis and noninterest income.

(5) Excludes covered assets, which consist of acquired loans and OREO that are covered under loss-sharing agreements with the FDIC.

(6) Excludes \$32.75 billion, \$31.48 billion and \$27.85 billion of assets under management (AUM) for asset managers in which the Company held a noncontrolling ownership interest as of June 30, 2015, March 31, 2015 and June 30, 2014, respectively.

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CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles (GAAP). The Company's accounting policies are fundamental to understanding management's discussion and analysis of results of operations and financial condition. The Company has identified five policies as critical because they require management to make estimates, assumptions and judgments that affect the reported amount of assets and liabilities, contingent assets and liabilities, and revenues and expenses included in the consolidated financial statements. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Circumstances and events that differ significantly from those underlying the Company's estimates, assumptions and judgments could cause the actual amounts reported to differ significantly from these estimates.

The Company's critical accounting policies include those that address financial assets and liabilities reported at fair value, acquired impaired loans, allowance for loan and lease losses and reserve for off-balance sheet credit commitments, goodwill and other intangible assets, and income taxes. The Company has not made any significant changes in its critical accounting policies or its estimates and assumptions from those disclosed in its 2014 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, 2015. Refer to Note 1, *Summary of Significant Accounting Policies*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion. Management has applied its critical accounting policies and estimation methods consistently in all periods presented in these financial statements.

HIGHLIGHTS

- Consolidated net income attributable to City National Corporation was \$68.5 million for the second quarter of 2015, up 5 percent from \$65.5 million in the year-earlier quarter and up 11 percent from \$61.6 million for the first quarter of 2015. For the second quarter of 2015, consolidated net income available to common shareholders was \$64.4 million, or \$1.13 per diluted share. Net income available to common shareholders was \$61.4 million, or \$1.09 per diluted share, for the year-earlier quarter and \$57.5 million, or \$1.01 per diluted share, for the first quarter of 2015.
- Revenue, which consists of net interest income and noninterest income, was \$349.4 million for the second quarter of 2015, up 9 percent from \$320.2 million in the year-earlier quarter and up 7 percent from \$327.7 million in the first quarter of 2015.
- Fully taxable-equivalent net interest income, including dividend income, amounted to \$245.8 million for the second quarter of 2015, up 9 percent from \$226.1 million for the second quarter of 2014 and \$224.8 million for the first quarter of 2015.
- Net interest margin for the second quarter of 2015 was 3.16 percent, down from 3.21 percent for the second quarter of 2014 but up from 2.99 percent for the first quarter of 2015. The decline from the year-earlier quarter was

primarily due to lower yields on non-covered loans and lower income on covered loans, partially offset by a lower cost of interest-bearing liabilities. The increase in net interest margin from the first quarter of 2015 was primarily due to a large interest recovery on a non-covered loan, as well as higher income on covered loans that were paid off or fully charged off in the second quarter of 2015.

- Noninterest income was \$112.9 million in the second quarter of 2015, up 12 percent from the second quarter of 2014 and 2 percent higher from the first quarter of 2015. The increase from the year-earlier quarter was primarily due to lower FDIC loss sharing expense and higher trust and investment fee income, which were offset in part by a lower net gain on the disposal of assets. The increase from the first quarter of 2015 was largely due to higher wealth management fees and net gains on the disposal of assets, which were partially offset by higher FDIC loss sharing expense.

- Trust and investment fee income grew to \$58.5 million in the second quarter of 2015, up 7 percent from the year-earlier quarter and 5 percent higher from the first quarter of 2015. The increase in trust and investment fee income compared with the second quarter of 2014 was largely due to asset inflows from new and existing clients and market appreciation. The increase in fee income from the first quarter of 2015 was primarily due to a change in the AUM mix, as decreases in money market funds and seasonal outflows in lower yielding investments were largely offset by increases in higher yielding assets. AUM totaled \$47.75 billion as of June 30, 2015, up 1 percent from June 30, 2014 but down 1 percent from March 31, 2015.

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- Noninterest expense for the second quarter of 2015 was \$231.7 million, up 5 percent from the second quarter of 2014 but down 1 percent from the first quarter of 2015. The increase from the year-earlier quarter largely reflects higher compensation costs and FDIC assessments, as well as an increase in depreciation and amortization expense related to fixed assets and software. Results for the second quarter of 2015 also included \$2.2 million in transaction costs related to the planned merger with Royal Bank of Canada (RBC), compared with \$3.2 million in the first quarter of 2015.
- The base yield on the covered loan portfolio generated net interest income of \$9.4 million in the second quarter of 2015, compared with \$12.4 million for the year-earlier quarter and \$9.9 million in the first quarter of 2015. Base yield is the yield on covered loans, excluding income from covered loans that were paid off or fully charged off. The Company recognizes other components of income and expense related to its covered assets, including income from covered loans that were paid off or fully charged off, net impairment charges and other covered assets income and expenses. These components fluctuate from period to period. When aggregated, the impact of these items to the income statement, excluding the base yield, was total net income of \$4.5 million for the second quarter of 2015, compared with net expense of \$2.8 million for the second quarter of 2014 and \$1.3 million for the first quarter of 2015. Refer to the Net Interest Income, Provision for Credit Losses and Covered Assets sections included elsewhere in this report for further discussion.
- The Company's effective tax rate was 35.3 percent for the second quarter of 2015, compared with 34.7 percent for the year-earlier quarter and 33.0 percent for the first quarter of 2015. The effective tax rate reflects the Company's adoption of the new accounting standard for low-income housing tax credits. Refer to Note 1, *Summary of Significant Accounting Policies*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion.
- Total assets were \$33.76 billion at June 30, 2015, up 10 percent from \$30.81 billion at June 30, 2014 and up 3 percent from \$32.70 billion at March 31, 2015. Total average assets were \$32.88 billion for the second quarter of 2015, up 10 percent from \$29.97 billion for the second quarter of 2014 and up 2 percent from \$32.26 billion for the first quarter of 2015.
- Loans and leases, excluding covered loans, grew to \$21.93 billion at June 30, 2015, an increase of 19 percent from \$18.47 billion at June 30, 2014 and 5 percent from \$20.91 billion at March 31, 2015. Average loan and lease balances, excluding covered loans, were \$21.28 billion for the second quarter of 2015, up 18 percent from the same period of last year and 4 percent higher from the first quarter of 2015.
- Excluding covered loans, second quarter 2015 results included a \$10.0 million provision for loan and lease losses. The Company recorded a \$1.0 million reversal of provision for loan and lease losses in the second quarter of 2014 and no provision for loan and lease losses in the first quarter of 2015. The allowance for loan and lease losses on non-covered loans was \$316.9 million at June 30, 2015, compared with \$311.3 million at June 30, 2014 and \$308.9

million at March 31, 2015. The Company remains appropriately reserved at 1.45 percent of total loans and leases, excluding covered loans, at June 30, 2015, compared with 1.68 percent at June 30, 2014 and 1.48 percent at March 31, 2015.

- In the second quarter of 2015, net loan charge-offs totaled \$0.6 million, or 0.01 percent of average total loans and leases, excluding covered loans, on an annualized basis, compared with net charge-offs of \$3.6 million, or 0.08 percent, in the year-earlier quarter, and net charge-offs of \$0.4 million, or 0.01 percent, for the first quarter of 2015. Nonaccrual loans, excluding covered loans, totaled \$29.0 million at June 30, 2015, down from \$64.8 million at June 30, 2014 and \$33.4 million at March 31, 2015. At June 30, 2015, nonperforming assets, excluding covered assets, were \$35.0 million, down from \$69.1 million at June 30, 2014 and \$39.3 million at March 31, 2015.
- Average securities for the second quarter of 2015 totaled \$8.48 billion, down 2 percent from the second quarter of 2014 and 7 percent lower from the first quarter of 2015.
- Period-end deposits at June 30, 2015 were \$29.48 billion, up 11 percent from \$26.65 billion at June 30, 2014 and 3 percent higher from \$28.52 billion at March 31, 2015. Deposit balances for the second quarter of 2015 averaged \$28.62 billion, up 10 percent from \$25.91 billion for the second quarter of 2014 and 3 percent higher from \$27.81 billion for the first quarter of 2015. Average core deposits, which equal 98 percent of total deposit balances for the first quarter of 2015, were up 10 percent from the second quarter of 2014 and up 3 percent from the first quarter of 2015.

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- The Company remains well capitalized. Under Basel III capital rules, which became effective for the Company on January 1, 2015, the Common equity tier 1 capital ratio was 8.60 percent at June 30, 2015, compared with 8.71 percent at March 31, 2015. Refer to the Capital section included elsewhere in this report for further discussion.
- On May 27, 2015, City National shareholders voted in favor of the proposal to adopt the merger agreement with RBC at a special meeting of stock holders held in Los Angeles. The Company announced plans to merge with RBC on January 22, 2015.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a fully taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets. The following table presents the components of net interest income on a fully taxable-equivalent basis for the three and six months ended June 30, 2015 and 2014:

Table of Contents**Net Interest Income Summary**

(in thousands) (1)	For the three months ended June 30, 2015			For the three months ended June 30, 2014		
	Average balance	Interest income/ expense (2)(3)	Average interest rate	Average balance	Interest income/ expense (2)(3)	Average interest rate
Assets						
Interest-earning assets						
Loans and leases						
Commercial	\$ 10,294,378	\$ 88,048	3.43%	\$ 8,605,421	\$ 74,969	3.49%
Commercial real estate mortgages	3,787,028	32,519	3.44	3,354,672	29,838	3.57
Residential mortgages	5,378,232	44,474	3.31	4,715,528	41,359	3.51
Real estate construction	828,814	8,062	3.90	418,353	3,915	3.75
Home equity loans and lines of credit	797,275	6,974	3.51	697,178	6,411	3.69
Installment	195,741	2,078	4.26	168,039	1,820	4.34
Total loans and leases, excluding covered loans (4)	21,281,468	182,155	3.43	17,959,191	158,312	3.54
Covered loans	455,406	25,550	22.44	643,690	31,061	19.30
Total loans and leases	21,736,874	207,705	3.83	18,602,881	189,373	4.08
Due from banks - interest-bearing	653,595	433	0.27	577,591	378	0.26
Federal funds sold and securities purchased under resale agreements						
	223,753	1,134	2.03	355,747	1,477	1.67
Securities	8,480,316	45,339	2.14	8,668,011	46,924	2.17
Other interest-earning assets	61,528	1,976	12.88	72,166	1,165	6.47
Total interest-earning assets	31,156,066	256,587	3.30	28,276,396	239,317	3.39
Allowance for loan and lease losses	(322,152)			(327,820)		
Cash and due from banks	184,116			187,710		
Other non-earning assets	1,862,485			1,829,612		
Total assets	\$ 32,880,515			\$ 29,965,898		
Liabilities and Equity						
Interest-bearing deposits						
Interest checking accounts	\$ 2,636,361	\$ 306	0.05%	\$ 2,327,248	\$ 327	0.06%
Money market accounts	6,172,721	1,080	0.07	6,617,913	1,142	0.07
Savings deposits	485,654	72	0.06	462,316	68	0.06
Time deposits - under \$100,000	150,091	64	0.17	169,455	86	0.20
Time deposits - \$100,000 and over	515,811	358	0.28	451,197	437	0.39
Total interest-bearing deposits	9,960,638	1,880	0.08	10,028,129	2,060	0.08
Federal funds purchased and securities sold under repurchase agreements						
	23,132	8	0.13	934		0.07
Other borrowings	640,210	8,890	5.57	737,159	11,163	6.07
Total interest-bearing liabilities	10,623,980	10,778	0.41	10,766,222	13,223	0.49
Noninterest-bearing deposits	18,662,685			15,883,952		
Other liabilities	539,129			498,602		
Total equity	3,054,721			2,817,122		

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Total liabilities and equity	\$	32,880,515	\$	29,965,898
Net interest spread			2.89%	2.90%
Fully taxable-equivalent net interest and dividend income	\$	245,809	\$	226,094
Net interest margin			3.16%	3.21%
Less: Dividend income included in other income		1,976		1,165
Fully taxable-equivalent net interest income	\$	243,833	\$	224,929

(1) Certain prior period amounts have been adjusted to reflect the adoption of ASU 2014-01. See Note 1, *Summary of Significant Accounting Policies*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion.

(2) Net interest income is presented on a fully taxable-equivalent basis.

(3) Loan income includes loan fees of \$7,111 and \$8,884 for 2015 and 2014, respectively.

(4) Includes average nonaccrual loans of \$32,569 and \$63,934 for 2015 and 2014, respectively.

Table of Contents**Net Interest Income Summary**

(in thousands) (1)	For the six months ended June 30, 2015			For the six months ended June 30, 2014		
	Average balance	Interest income/ expense (2)(3)	Average interest rate	Average balance	Interest income/ expense (2)(3)	Average interest rate
Assets						
Interest-earning assets						
Loans and leases						
Commercial	\$ 10,096,226	\$ 166,292	3.32%	\$ 8,435,115	\$ 143,138	3.42%
Commercial real estate mortgages	3,699,862	64,420	3.51	3,305,008	59,164	3.61
Residential mortgages	5,280,039	87,922	3.33	4,656,094	82,224	3.53
Real estate construction	789,077	14,421	3.69	397,409	7,385	3.75
Home equity loans and lines of credit	788,794	13,820	3.53	696,137	12,620	3.66
Installment	191,518	4,099	4.32	160,757	3,515	4.41
Total loans and leases, excluding covered loans (4)	20,845,516	350,974	3.40	17,650,520	308,046	3.52
Covered loans	473,819	43,813	18.49	669,781	52,913	15.80
Total loans and leases	21,319,335	394,787	3.73	18,320,301	360,959	3.97
Due from banks - interest-bearing	461,980	569	0.25	621,146	820	0.27
Federal funds sold and securities purchased under resale agreements						
	211,942	2,375	2.26	317,569	2,848	1.81
Securities	8,784,223	91,510	2.08	8,626,844	91,699	2.13
Other interest-earning assets	63,474	3,004	9.54	74,538	2,375	6.42
Total interest-earning assets	30,840,954	492,245	3.22	27,960,398	458,701	3.31
Allowance for loan and lease losses	(321,114)			(325,595)		
Cash and due from banks	193,295			217,631		
Other non-earning assets	1,858,648			1,839,038		
Total assets	\$ 32,571,783			\$ 29,691,472		
Liabilities and Equity						
Interest-bearing deposits						
Interest checking accounts	\$ 2,682,110	\$ 621	0.05%	\$ 2,373,545	\$ 710	0.06%
Money market accounts	6,164,837	2,139	0.07	6,492,299	2,242	0.07
Savings deposits	493,612	146	0.06	458,293	136	0.06
Time deposits - under \$100,000	151,949	134	0.18	171,749	179	0.21
Time deposits - \$100,000 and over	517,422	760	0.30	467,224	927	0.40
Total interest-bearing deposits	10,009,930	3,800	0.08	9,963,110	4,194	0.08
Federal funds purchased and securities sold under repurchase agreements						
	138,403	79	0.11	470		0.07
Other borrowings	640,088	17,800	5.61	738,021	22,316	6.10
Total interest-bearing liabilities	10,788,421	21,679	0.41	10,701,601	26,510	0.50
Noninterest-bearing deposits	18,208,174			15,680,222		
Other liabilities	558,016			516,938		
Total equity	3,017,172			2,792,711		

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Total liabilities and equity	\$	32,571,783	\$	29,691,472
Net interest spread			2.81%	2.81%
Fully taxable-equivalent net interest and dividend income	\$	470,566	\$	432,191
Net interest margin			3.08%	3.12%
Less: Dividend income included in other income		3,004		2,375
Fully taxable-equivalent net interest income	\$	467,562	\$	429,816

(1) Certain prior period amounts have been adjusted to reflect the adoption of ASU 2014-01. See Note 1, *Summary of Significant Accounting Policies*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion.

(2) Net interest income is presented on a fully taxable-equivalent basis.

(3) Loan income includes loan fees of \$12,838 and \$15,115 for 2015 and 2014, respectively.

(4) Includes average nonaccrual loans of \$35,120 and \$66,116 for 2015 and 2014, respectively.

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Net interest income is impacted by the volume (changes in volume multiplied by prior rate), interest rate (changes in rate multiplied by prior volume) and mix of interest-earning assets and interest-bearing liabilities. The following table provides a breakdown of the changes in net interest income and dividend income on a fully taxable-equivalent basis due to volume and rate between the second quarter and first six months of 2015 and 2014, as well as the second quarter and first six months of 2014 and 2013.

Changes in Net Interest Income

(in thousands)	For the three months ended June 30, 2015 vs 2014			For the three months ended June 30, 2014 vs 2013		
	Increase (decrease) due to		Net increase (decrease)	Increase (decrease) due to		Net increase (decrease)
	Volume	Rate		Volume	Rate	
Interest earned on:						
Total loans and leases (1)	\$ 30,468	\$ (12,136)	\$ 18,332	\$ 23,362	\$ (9,829)	\$ 13,533
Securities	(1,009)	(576)	(1,585)	(996)	4,091	3,095
Due from banks - interest-bearing	50	5	55	224	(4)	220
Federal funds sold and securities purchased under resale agreements	(624)	281	(343)	381	(459)	(78)
Other interest-earning assets	(194)	1,005	811	(309)	401	92
Total interest-earning assets	28,691	(11,421)	17,270	22,662	(5,800)	16,862
Interest paid on:						
Interest checking deposits	40	(61)	(21)	26	(89)	(63)
Money market deposits	(78)	16	(62)	219	(722)	(503)
Savings deposits	4		4	10	(41)	(31)
Time deposits	35	(136)	(101)	(243)	(90)	(333)
Total borrowings	(1,070)	(1,195)	(2,265)	(6,139)	6,216	77
Total interest-bearing liabilities	(1,069)	(1,376)	(2,445)	(6,127)	5,274	(853)
	\$ 29,760	\$ (10,045)	\$ 19,715	\$ 28,789	\$ (11,074)	\$ 17,715

(in thousands)	For the six months ended June 30, 2015 vs 2014			For the six months ended June 30, 2014 vs 2013		
	Increase (decrease) due to		Net increase (decrease)	Increase (decrease) due to		Net increase (decrease)
	Volume	Rate		Volume	Rate	
Interest earned on:						
Total loans and leases (1)	\$ 56,488	\$ (22,660)	\$ 33,828	\$ 45,985	\$ (32,882)	\$ 13,103
Securities	1,643	(1,832)	(189)	(7,047)	8,086	1,039
Due from banks - interest-bearing	(198)	(53)	(251)	536	14	550
Federal funds sold and securities purchased under resale agreements	(1,083)	610	(473)	1,045	(887)	158
Other interest-earning assets	(392)	1,021	629	(617)	957	340
Total interest-earning assets	56,458	(22,914)	33,544	39,902	(24,712)	15,190
Interest paid on:						
Interest checking deposits	85	(174)	(89)	62	(159)	(97)

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Money market deposits	(113)	10	(103)	391	(1,391)	(1,000)
Savings deposits	10		10	19	(97)	(78)
Time deposits	51	(263)	(212)	(385)	(176)	(561)
Total borrowings	1,156	(5,593)	(4,437)	(19,003)	18,446	(557)
Total interest-bearing liabilities	1,189	(6,020)	(4,831)	(18,916)	16,623	(2,293)
	\$ 55,269	\$ (16,894)	\$ 38,375	\$ 58,818	\$ (41,335)	\$ 17,483

(1) Includes covered loans.

Net interest income was \$236.5 million for the second quarter of 2015, an increase of 9 percent from \$216.6 million for the first quarter of 2015 and an increase of 8 percent from \$219.1 million for the second quarter of 2014. The increase in net interest income from the first quarter of 2015 was largely due to higher loan income. The increase in net interest income compared with the year-earlier quarter was due to higher income on non-covered loans and lower interest expense on borrowed funds, which was partially offset by lower interest income from covered loans. Fully taxable-equivalent net interest income and dividend income was \$245.8 million for the second quarter of 2015, compared with \$224.8 million for the first quarter of 2015 and \$226.1 million for the second quarter of 2014.

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Interest income on total loans was \$204.5 million for the second quarter of 2015, up 11 percent from the first quarter of 2015 and up 9 percent from the second quarter of 2014. The increase in loan interest income from the prior quarter was driven by non-covered loan growth and higher net accelerated accretable yield recognition on covered loans that were paid off or fully charged off. Compared with the year-earlier quarter, the increase in interest income was driven by growth in the non-covered loan portfolio, partially offset by a decrease in income from covered loans. Interest income in the current quarter also included a large interest recovery on a non-covered loan. Income from accelerated accretable yield recognition during the second quarter of 2015 was \$16.2 million, compared with \$8.4 million in the prior quarter and \$18.7 million in the year-earlier quarter. Refer to Covered Assets included elsewhere in this report for further discussion of interest income on covered loans.

Average loans and leases, excluding covered loans, totaled \$21.28 billion for the second quarter of 2015, an increase of 4 percent from \$20.40 billion for the first quarter of 2015 and up 18 percent from \$17.96 billion for the second quarter of 2014. Average commercial loans grew 4 percent and 20 percent from the first quarter of 2015 and second quarter of 2014, respectively. Average commercial real estate balances increased 5 percent from the prior quarter and 13 percent from the year-earlier quarter, while average residential mortgage loans were up 4 and 14 percent from the respective periods. Average covered loans decreased to \$455.4 million for the second quarter of 2015 from \$492.4 million for the first quarter of 2015 and \$643.7 million for the year-ago quarter.

Interest income on securities was \$41.2 million for the second quarter of 2015, a 2 percent decrease from \$42.1 million for the first quarter of 2015 and a 5 percent decrease from \$43.5 million for the second quarter of 2014. Average total securities were \$8.48 billion for the second quarter of 2015, down 7 percent from \$9.09 billion for the first quarter of 2015 and down 2 percent from \$8.67 billion for the year-earlier quarter. The decrease in income from the prior and year-earlier quarters was primarily due to lower average portfolio balances as cash flow from short-term investments was used to fund loan growth. The impact of lower average securities balances compared with the prior quarters was partially offset by prepayment premiums received on accelerated paydowns during the current quarter.

Total interest expense was \$10.8 million for the second quarter of 2015, a decrease of 1 percent from \$10.9 million for the first quarter of 2015 and down 18 percent from \$13.2 million for the second quarter of 2014. Interest expense on borrowings was \$8.9 million for the second quarter of 2015, down 1 percent from \$9.0 million for the first quarter of 2015 and down 20 percent from \$11.2 million for the second quarter of 2014. The decrease in total interest expense from the year-earlier quarter was primarily due to the redemption of \$105.0 million in subordinated notes during the third quarter of 2014.

Interest expense on deposits was \$1.9 million for the second quarter of 2015 and first quarter of 2015, down from \$2.1 million for the year-earlier quarter. The decrease in interest expense from the prior-year quarter was due to lower average interest-bearing deposit balances and lower rates on time deposits. Average deposits were \$28.62 billion for the second quarter of 2015, up 3 percent from \$27.81 billion for the first quarter of 2015 and up 10 percent from \$25.91 billion for the second quarter of 2014. Average core deposits, which do not include certificates of deposits of \$100,000 or more, were \$28.11 billion for the second quarter of 2015, \$27.29 billion for the first quarter of 2015 and \$25.46 billion for the year-earlier quarter, and represented 98 percent of total average deposits for each respective period. Average interest-bearing deposits were \$9.96 billion for the second quarter of 2015, down 1 percent from \$10.06 billion for the first quarter of 2015 and down 1 percent from \$10.03 billion for the second quarter of 2014. Average noninterest-bearing deposits were \$18.66 billion, up 5 percent from the first quarter of 2015 and up 17 percent from the year-earlier quarter.

Net interest margin was 3.16 percent for the second quarter of 2015, up from 2.99 percent for the first quarter of 2015 and down from 3.21 percent for the second quarter of 2014. The average yield on earning assets for the second quarter of 2015 was 3.30 percent, up 17 basis points from 3.13 percent for the first quarter of 2015 and down 9 basis points from 3.39 percent for the year-earlier quarter. The average cost of interest-bearing liabilities was 0.41 percent, up from 0.40 percent for the first quarter of 2015 and down 8 basis points from 0.49 percent for the second quarter of 2014. The increase in the net interest margin from the prior quarter was primarily the result of a change in the asset mix, as lower yielding investments were replaced with higher yielding loans, a large interest recovery on a non-covered loan, and higher net accelerated

accretable yield recognition on covered loans that were paid off or fully charged off. Compared with the year-earlier quarter, the decrease in the net interest margin was mainly attributable to lower yields on loans and lower income on covered loans, partially offset by a lower cost of interest-bearing liabilities.

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Provision for Credit Losses

The Company accounts for the credit risk associated with lending activities through its allowance for loan and lease losses, reserve for off-balance sheet credit commitments and provision for credit losses. The provision for credit losses on loans and leases, excluding covered loans, is the expense recognized in the consolidated statements of income to adjust the allowance and the reserve for off-balance sheet credit commitments to the levels deemed appropriate by management, as determined through application of the Company's allowance methodology procedures. See *Critical Accounting Policies Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments* in the Company's Form 10-K for the year ended December 31, 2014.

The Company recorded a \$10.0 million provision for credit losses on loans and leases, excluding covered loans, in the three months and six months ended June 30, 2015. The Company recorded a \$1.0 million reversal of provision for credit losses on loans and leases, excluding covered loans, in the three months and six months ended June 30, 2014. The increase in provision compared with the year-earlier periods was largely due to loan growth. The provision reflects management's continuing assessment of the credit quality of the Company's loan portfolio, which is affected by a broad range of economic factors. Additional factors affecting the provision include net loan charge-offs or recoveries, nonaccrual loans, specific reserves, risk rating migration and changes in the portfolio size and composition. See *Balance Sheet Analysis Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments* included elsewhere in this report for further information on factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for loan and lease losses.

Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements, and are primarily accounted for as acquired impaired loans under Accounting Standards Codification (ASC) Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). The provision for losses on covered loans is the expense recognized in the consolidated statements of income related to impairment losses resulting from the Company's quarterly review and update of cash flow projections on its covered loan portfolio. The Company recorded a \$1.1 million provision for losses on covered loans during the second quarter of 2015, compared with a \$0.5 million provision in the first quarter of 2015 and a \$1.5 million reversal of provision during the second quarter of 2014. Refer to *Covered Assets* included elsewhere in this report for further discussion of the provision for losses on covered loans.

Credit quality will be influenced by underlying trends in the economic cycle, particularly in California and New York, and other factors which are beyond management's control. Consequently, no assurances can be given that the Company will not sustain loan or lease losses, in any particular period, that are sizable in relation to the allowance for loan and lease losses.

Refer to *Loans and Leases Asset Quality* included elsewhere in this report for further discussion of credit quality.

Noninterest Income

Noninterest income was \$112.9 million in the second quarter of 2015, up 2 percent from the first quarter of 2015 and up 12 percent from the second quarter of 2014. The increase from the first quarter of 2015 was largely due to higher wealth management fees and net gains on the disposal of assets. These increases were partially offset by higher FDIC loss sharing expense and lower net gain on the sale of securities. The increase from the year-earlier quarter was due to lower FDIC loss sharing expense and higher wealth management fees, which were offset in part by lower net gains from the sales of securities and foreclosed assets. Noninterest income represented 32 percent of the Company's revenue in the

second quarter of 2015, compared with 34 percent in the first quarter of 2015 and 32 percent for the second quarter of 2014.

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The following table provides a summary of noninterest income by category:

(in thousands)	For the three months ended		
	June 30, 2015	March 31, 2015	June 30, 2014
Trust and investment fees	\$ 58,487	\$ 55,521	\$ 54,599
Brokerage and mutual fund fees	11,424	10,598	14,240
Total wealth management fees	69,911	66,119	68,839
Cash management and deposit transaction charges	12,861	12,633	12,128
International services	11,774	10,668	11,483
FDIC loss sharing expense, net	(10,808)	(6,688)	(24,161)
Other noninterest income	25,975	24,922	20,853
Total noninterest income before gain	109,713	107,654	89,142
Gain on disposal of assets	1,538	110	6,838
Gain on sale of securities	1,924	3,376	5,367
Impairment loss on securities	(271)	(65)	(248)
Total noninterest income	\$ 112,904	\$ 111,075	\$ 101,099

Wealth Management

The Company provides various trust, investment and wealth advisory services to its individual, institutional and business clients. The Company delivers these services through the Bank's wealth management division as well as through its wealth management affiliates. Trust services are provided only by the Bank. Trust and investment fee revenue includes fees from trust, investment and asset management, and other wealth advisory services. The majority of these fees are based on the market value of client assets managed, advised, administered or held in custody. The remaining portion of these fees is based on the specific service provided, such as estate and financial planning services, or may be fixed fees. For those fees based on market valuations, the mix of assets held in client accounts, as well as the type of managed account, impacts how closely changes in trust and investment fee income correlate with changes in the financial markets. Changes in market valuations are reflected in fee income on a trailing day, month or quarter basis. Also included in total trust and investment fees is the Company's portion of income from certain investments accounted for under the equity method.

Trust and investment fees were \$58.5 million for the second quarter of 2015, an increase of 5 percent from \$55.5 million for the first quarter of 2015 and an increase of 7 percent from \$54.6 million for the second quarter of 2014. The increase in trust and investment fee income from the first quarter of 2015 was primarily due to a change in the AUM mix, as decreases in money market funds and seasonal outflows in lower yielding investments were largely offset by increases in higher yielding assets. The increase compared with the prior-year quarter was largely due to asset inflows from new and existing clients and market appreciation. Brokerage and mutual fund fees were \$11.4 million for the second quarter of 2015, an increase of 8 percent from \$10.6 million for the first quarter of 2015 and a decrease of 20 percent from \$14.2 million for the year-earlier quarter. Brokerage and mutual fund fees for the second quarter of 2014 included the recognition of \$3.8 million in performance fee income related to the merger of two mutual funds.

AUM includes assets for which the Company makes investment decisions on behalf of its clients and assets under advisement for which the Company receives advisory fees from its clients. Assets under administration (AUA) are assets the Company holds in a fiduciary capacity or for which it provides non-advisory services. The table below provides a summary of AUM and AUA for the dates indicated:

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(in millions)		June 30,		%		March 31,		%
	2015		2014	Change		2015		Change
Assets Under Management	\$	47,749	\$	47,124	1	\$	48,446	(1)
Assets Under Administration								
Brokerage		6,310		5,218	21		6,457	(2)
Custody and other fiduciary		7,024		13,438	(48)		7,048	(0)
Subtotal		13,334		18,656	(29)		13,505	(1)
Total assets under management or administration (1)	\$	61,083	\$	65,780	(7)	\$	61,951	(1)

(1) Excludes \$32.75 billion, \$31.48 billion and \$27.85 billion of AUM for asset managers in which the Company held a noncontrolling ownership interest as of June 30, 2015, March 31, 2015 and June 30, 2014, respectively.

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AUM totaled \$47.75 billion as of June 30, 2015, down 1 percent from the first quarter of 2015 and up 1 percent from the year-earlier quarter. Assets under management or administration were \$61.08 billion at June 30, 2015, down 1 percent from the first quarter of 2015 and down 7 percent from the year-earlier quarter. The growth in AUM compared with the prior year period was primarily attributable to the addition of client assets and higher market valuations. The decrease in AUA from the year-ago period reflects the sale of the Company's retirement services recordkeeping business in the third quarter of 2014.

A distribution of AUM by type of investment is provided in the following table:

Investment	% of Assets Under Management		
	June 30, 2015	March 31, 2015	June 30, 2014
Equities	49%	47%	49%
U.S. fixed income	29	29	26
Cash and cash equivalents	14	17	15
Other (1)	8	7	10
	100%	100%	100%

(1) Includes private equity and other alternative investments.

Other Noninterest Income

Cash management and deposit transaction fees for the second quarter of 2015 were \$12.9 million, up 2 percent from the first quarter of 2015 and 6 percent from the second quarter of 2014, due largely to increased client activity.

International services income for the second quarter of 2015 was \$11.8 million, up 10 percent from the first quarter of 2015 and up 3 percent from the year-earlier quarter. International services income is composed of foreign exchange fees, fees on commercial letters of credit and standby letters of credit, foreign collection fees, and gains and losses associated with fluctuations in foreign currency exchange rates. The growth in fee income was due to increased client activity and the addition of new clients.

Net FDIC loss sharing expense was \$10.8 million for the second quarter of 2015, compared with \$6.7 million for the first quarter of 2015 and \$24.2 million for the year-earlier quarter. See Covered Assets included elsewhere in this report for further discussion of FDIC loss sharing income and expense.

Net gain on disposal of assets was \$1.5 million in the second quarter of 2015, compared with \$0.1 million in the first quarter of 2015 and \$6.8 million in the year-earlier quarter. The net gain for all periods is primarily composed of gains recognized on the sale of covered and non-covered foreclosed assets.

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The Company recognized net gains on sales of securities of \$1.9 million during the second quarter of 2015. Net gains on sales of securities were \$3.4 million in the first quarter of 2015 and \$5.4 million for the second quarter of 2014. Impairment losses of \$0.3 million, \$0.1 million and \$0.2 million were recognized in earnings on securities available-for-sale in the second quarter of 2015, first quarter of 2015 and second quarter of 2014, respectively. See [Balance Sheet Analysis Securities](#) included elsewhere in this report for further discussion of impairment on securities available-for-sale.

Other income for the second quarter of 2015 was \$26.0 million, up 4 percent from \$24.9 million for the first quarter of 2015 and up 25 percent from \$20.9 million for the second quarter of 2014. The increase from prior periods was due to higher income from client swap transactions and an increase in credit card and interchange fees, partly offset by higher impairment losses on cost method investments.

Table of Contents**Noninterest Expense**

Noninterest expense was \$231.7 million for the second quarter of 2015, down 1 percent from \$234.4 million for the first quarter of 2015 and up 5 percent from \$221.6 million for the second quarter of 2014. The following table provides a summary of noninterest expense by category:

(in thousands) (1)	June 30, 2015	For the three months ended March 31, 2015	June 30, 2014
Salaries and employee benefits	\$ 144,681	\$ 144,568	\$ 138,859
All other:			
Net occupancy of premises	16,179	16,073	16,595
Legal and professional fees	17,348	16,938	18,393
Information services	10,648	9,860	9,463
Depreciation and amortization	9,508	14,982	7,885
Amortization of intangibles	1,226	1,377	1,454
Marketing and advertising	8,938	8,830	8,982
Office services and equipment	5,102	5,136	5,287
Other real estate owned	1,094	2,731	2,372
FDIC assessments	5,276	5,094	2,765
Other operating	11,660	8,853	9,527
Total all other	86,979	89,874	82,723
Total noninterest expense	\$ 231,660	\$ 234,442	\$ 221,582

(1) Certain prior period amounts have been adjusted to reflect the adoption of ASU 2014-01. See Note 1, *Summary of Significant Accounting Policies*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion.

Salaries and employee benefits expense was \$144.7 million for the second quarter of 2015, up slightly from \$144.6 million for the first quarter of 2015 and up 4 percent from \$138.9 million for the year-earlier quarter. Full-time equivalent staff was 3,651 at June 30, 2015, up from 3,578 at March 31, 2015 and 3,638 at June 30, 2014. Increases in salaries and incentive compensation expense for the second quarter of 2015 compared with the first quarter of 2015 were largely offset by lower payroll taxes and insurance costs. Compared with the year-earlier quarter, increases in staff during the current quarter were largely offset by decreases in staff related to the sale of the Company's retirement services recordkeeping business in the third quarter of 2014. The increase in salaries and employee benefits expense in the second quarter compared with the year-earlier quarter was largely due to higher incentive compensation and salaries, net of the impact related to the sale of the retirement services recordkeeping business.

Salaries and employee benefits expense for the second quarter of 2015 included \$5.0 million of share-based compensation expense compared with \$6.2 million for the first quarter of 2015 and \$5.2 million for the year-earlier quarter. The decrease from the prior quarter was primarily attributable to the vesting of cash-settled restricted stock units during the first quarter of 2015. See Note 10, *Share-Based Compensation*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion of share-based compensation.

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The remaining noninterest expense categories totaled \$87.0 million for the second quarter of 2015, down 3 percent from \$89.9 million for the first quarter of 2015 and up 5 percent from \$82.7 million for the second quarter of 2014. The decrease in expense compared with the prior quarter was largely due to lower depreciation and amortization expense related to fixed assets and software and lower OREO expense on covered assets. Depreciation and amortization expense for the first quarter of 2015 included additional expenses to correctly board capitalized projects that were completed and placed in service in prior periods. Compared with the year-earlier quarter, increases in depreciation and amortization expense, FDIC assessment expense and legal settlement expense were partially offset by lower OREO expense on covered assets and lower legal and professional fees.

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Legal and professional fees were \$17.3 million for the second quarter of 2015, up 2 percent from \$16.9 million in the first quarter of 2015 and down 6 percent from \$18.4 million in the year-earlier quarter. Legal and professional fees for the second quarter of 2015 included \$1.5 million in transaction costs related to the planned merger with RBC. The decrease from the year-earlier quarter reflects lower sub-advisory fees associated with advised funds, primarily due to \$1.9 million of expense recognized in the second quarter of 2014 related to the merger of two funds.

Legal and professional fees associated with covered loans and OREO increased to \$1.3 million for the second quarter of 2015, from \$0.5 million for the first quarter of 2015 and \$1.0 million for the second quarter of 2014. Under the loss-sharing agreements, 80 percent of qualifying legal and professional fees associated with covered loans and OREO are reimbursable by the FDIC and reflected in FDIC loss sharing income (expense), net in the noninterest income section of the consolidated statements of income.

The following table provides a summary of OREO expense for non-covered and covered OREO. Qualifying covered OREO expenses are reimbursable by the FDIC at 80 percent.

(in thousands)	For the three months ended			For the six months ended		
	2015	June 30, 2014	2014	2015	June 30, 2014	2014
Non-covered OREO expense						
Valuation write-downs	\$	\$	\$	\$	\$	14
Holding costs and foreclosure expense		87	72		296	178
Total non-covered OREO expense	\$	87	\$ 72	\$ 296	\$	192
Covered OREO expense						
Valuation write-downs	\$	77	\$ 934	\$ 1,739	\$	1,089
Holding costs and foreclosure expense		930	1,366	1,790		2,524
Total covered OREO expense	\$	1,007	\$ 2,300	\$ 3,529	\$	3,613
Total OREO expense	\$	1,094	\$ 2,372	\$ 3,825	\$	3,805

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The following table summarizes the components of income and expense related to covered assets for the three and six months ended June 30, 2015 and 2014:

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Interest income on covered loans				
Base yield	\$ 9,359	\$ 12,379	\$ 19,235	\$ 24,907
Income on loans paid-off or fully charged-off	16,191	18,682	24,578	28,006
Total interest income on covered loans	\$ 25,550	\$ 31,061	\$ 43,813	\$ 52,913
(Reversal of) provision for losses on covered loans				
(Reversal of) provision for losses on covered loans	\$ 1,091	\$ (1,461)	\$ 1,588	\$ 3,194
Noninterest income related to covered assets				
FDIC loss sharing expense, net				
Loss on indemnification asset	\$ (2,826)	\$ (4,392)	\$ (4,137)	\$ (793)
Indemnification asset amortization	(2,009)	(3,320)	(4,390)	(6,484)
Net FDIC reimbursement for OREO and loan expenses	844	2,160	3,439	3,813
Removal of indemnification asset for loans paid-off or fully charged-off	(1,233)	(4,994)	(3,294)	(7,993)
Removal of indemnification asset for unfunded loan commitments and loans transferred to OREO	(740)	(773)	(906)	(1,449)
Removal of indemnification asset for OREO and net reimbursement to FDIC for OREO sales	(1,139)	(1,827)	(1,148)	(2,138)
Loan recoveries shared with FDIC	(3,379)	(9,866)	(5,877)	(14,088)
Increase in FDIC clawback liability	(326)	(1,149)	(1,183)	(2,112)
Total FDIC loss sharing expense, net	(10,808)	(24,161)	(17,496)	(31,244)
Gain on disposal of assets				
Net gain on sale of OREO	1,423	2,613	1,435	3,002
Other income				
Net gain on transfers of covered loans to OREO	1,189	867	1,490	1,730
Amortization of fair value on acquired unfunded loan commitments	(47)	218	(25)	433
OREO income	84	289	257	724
Other	(192)	543	(206)	387
Total other income	1,034	1,917	1,516	3,274
Total noninterest income related to covered assets	\$ (8,351)	\$ (19,631)	\$ (14,545)	\$ (24,968)
Noninterest expense related to covered assets (1)				
Other real estate owned				

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Valuation write-downs	\$	77	\$	934	\$	1,739	\$	1,089
Holding costs and foreclosure expense		930		1,366		1,790		2,524
Total other real estate owned		1,007		2,300		3,529		3,613
Legal and professional fees		1,253		992		1,757		2,572
Other operating expense								
Other covered asset expenses		7		5		14		24
Total noninterest expense related to covered assets (2)	\$	2,267	\$	3,297	\$	5,300	\$	6,209

(1) OREO, legal and professional fees, and other expenses related to covered assets must meet certain FDIC criteria in order for the expense amounts to be reimbursed. Certain amounts reflected in these categories may not be reimbursed by the FDIC.

(2) Excludes personnel and other corporate overhead expenses that the Company incurs to service covered assets and costs associated with the branches acquired in FDIC-assisted acquisitions.

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The Company accounts for its covered loans under ASC 310-30. Loans are accounted for under ASC 310-30 when there is evidence of credit deterioration since origination and for which it is probable, at acquisition, that the Company would be unable to collect all contractually required payments. These loans were recorded at fair value at the time of acquisition. In connection with its FDIC-assisted acquisitions, the Company entered into loss-sharing agreements with the FDIC under which the FDIC will reimburse the Company for 80 percent of eligible losses with respect to covered loans, OREO and unfunded loan commitments. The expected reimbursements under the loss-sharing agreements were recorded as an indemnification asset at their initial estimated fair value on the date of acquisition.

Covered Loan Base Yield and FDIC Indemnification Asset Amortization/Accretion

For covered loans, the excess of cash flows expected to be collected over the carrying value of the underlying acquired impaired loans is referred to as accretable yield. The accretion of this amount is recognized in interest income over the expected life of the covered loans and is herein referred to as base yield. For the FDIC indemnification asset, the difference between the cash flows the Company expects to collect from the FDIC (FDIC cash flows) and the carrying value of the indemnification asset is amortized or accreted into noninterest income up until the expiration date of the FDIC loss sharing. Both the base yield and the amortization or accretion of the indemnification asset are calculated using a level yield method that takes into consideration the remaining life of the covered loans and the terms of the FDIC loss-sharing agreements.

The quarterly review and update of cash flow projections (further discussed below) may adjust the rates used for loan accretion and indemnification asset amortization or accretion. As credit improves, expected loan cash flows will generally improve, resulting in higher accretable yield. Accordingly, as credit improves, expected FDIC cash flows will decrease, resulting in a larger difference between FDIC cash flows and indemnification asset carrying value. Credit improvements generally would result in higher rates of loan accretion and indemnification asset amortization.

The Company recorded base yield on covered loans of \$9.4 million in the second quarter of 2015, compared with \$9.9 million in the first quarter of 2015 and \$12.4 million in the second quarter of 2014. The Company recognized indemnification asset amortization expense of \$2.0 million in the second quarter of 2015, compared with \$2.4 million and \$3.3 million for the first quarter of 2015 and second quarter of 2014, respectively. The decrease in base yield and indemnification asset amortization expense from prior periods was primarily due to portfolio run-off. Average covered loans were \$455.4 million during the second quarter of 2015, down from \$492.4 million during the first quarter of 2015 and \$643.7 million for the year-earlier quarter.

Quarterly Update of Cash Flow Projections

The Company reviews and updates cash flow projections on covered loans and the related FDIC loss-sharing agreements on a quarterly basis. These projections take into consideration such inputs as the contractual terms of the covered loans, the contractual terms of the FDIC loss-sharing agreements, credit assumptions and prepayment assumptions. The quarterly update of cash flow projections impacts the following balance sheet and income statement items:

Balance Sheet Line Item	Corresponding Income Statement Line Item
Covered loans	Base yield in interest income

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Allowance for losses on covered loans	(Reversal of) provision for losses on covered loans
FDIC indemnification asset	FDIC loss sharing income or expense, net - <i>Gain or loss on indemnification asset</i> - <i>Indemnification asset amortization or accretion (on a prospective basis)</i>
FDIC clawback liability	FDIC loss sharing income or expense, net - <i>Increase or decrease in FDIC clawback liability</i>

Generally, for covered loans, decreases in estimated loan cash flows over those expected at the acquisition date and subsequent measurement periods are recognized by recording a provision for losses on covered loans. Decreases in estimated loan cash flows are typically accompanied by higher expected losses which would result in increases in FDIC cash flows. Increases in expected FDIC cash flows are recognized as gains on the FDIC indemnification asset.

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Increases in estimated loan cash flows over those expected at the acquisition date and subsequent measurement periods are recognized as interest income, prospectively, after previously recorded allowances are reversed. Increases in estimated loan cash flows are typically accompanied by lower expected losses which would result in decreases in FDIC cash flows. Decreases in expected FDIC cash flows are recognized as indemnification asset amortization expense on a prospective basis, after previously recorded gains on the indemnification asset have been reversed.

The FDIC clawback liability represents contingent consideration expected to be paid to the FDIC. The Company is required to reimburse the FDIC if actual cumulative losses are lower than the adjusted intrinsic losses contractually set forth in the FDIC loss-sharing agreements. The total FDIC clawback liability may increase as actual and expected losses decrease. The liability to the FDIC may decrease if actual and expected losses grow. The Company measures the FDIC clawback liability at fair value.

The Company recorded a \$1.1 million provision for losses on covered loans in the second quarter of 2015, compared with a provision for losses of \$0.5 million in the first quarter of 2015 and a \$1.5 million reversal of provision in the second quarter of 2014. Loss on indemnification asset was \$2.8 million for the second quarter of 2015, compared with \$1.3 million for the first quarter of 2015 and \$4.4 million for the second quarter of 2014. Expense from the increase in FDIC clawback liability was \$0.3 million, \$0.9 million and \$1.1 million for the second quarter of 2015, first quarter of 2015 and second quarter of 2014, respectively. The provision for losses on covered loans, the loss on indemnification asset and the change in FDIC clawback liability are the result of changes, both in amount and timing, in expected loan cash flows and FDIC cash flows due to actual loan performance and the Company's revised loan loss and prepayment forecasts. During the second quarter of 2015, the overall expected lifetime cash flows of the covered loan portfolio improved, but the change in amount and timing of the cash flows and change in the allowance due to loan removal, as well as the varying performance among different loan pools, resulted in the recognition of a net provision for losses on covered loans and a net loss on indemnification asset. The increase in the FDIC clawback liability was driven by an overall improvement in portfolio credit.

The revisions of the loss forecasts were based on the results of management's review of market conditions, the credit quality of the outstanding covered loans and loan performance data since the acquisition of covered loans. The Company will continue updating cash flow projections on covered loans and related FDIC loss-sharing agreements on a quarterly basis. Due to the uncertainty in the future performance of the covered loans, additional provision expense or provision reversal, gain or loss on indemnification asset, and changes in FDIC clawback liability may be recognized in future periods.

Covered Asset Removals

A covered asset removal event occurs when a loan is paid off, fully charged off, sold or transferred to OREO, or when OREO is liquidated. The difference between the carrying value of the covered asset and the cash or non-cash proceeds received upon its removal is recognized as a gain or loss in the income statement. The gain or loss on covered loans that are paid off and fully charged off, also referred to as net accelerated accretable yield recognition, is recorded in interest income. Gain or loss recognized on the transfer of covered loans to OREO is calculated as the difference between the carrying value of the covered loan and the fair value of the underlying foreclosed collateral, and is recognized in other noninterest income. The Company also recognizes gains and losses from the sale of covered OREO through noninterest income.

When a covered asset is removed, the FDIC indemnification asset associated with the covered asset is also removed. The FDIC indemnification asset balance associated with unfunded loan commitments is also removed when an unfunded commitment has been funded. The difference between the FDIC indemnification asset and the expected payment from the FDIC for the removed asset represents the expense or income on removal of the indemnification asset. These amounts are recognized in FDIC loss sharing income or expense.

Interest income from net accelerated accretable yield recognition was \$16.2 million in the second quarter of 2015, compared with \$8.4 million in the first quarter of 2015 and \$18.7 million in the year-earlier quarter. The increase from the first quarter of 2015 was primarily attributed to large recoveries on covered loans during the second quarter. The net expense from the removal of indemnification asset for loans that were paid off or fully charged off was \$1.2 million, \$2.1 million and \$5.0 million in the second quarter of 2015, first quarter of 2015 and second quarter of 2014, respectively. The decrease in balance in the second quarter of 2015 was due to lower volumes of covered loans that were paid off or fully charged off.

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Net gain on transfers of covered loans to OREO was \$1.2 million in the second quarter of 2015, compared with \$0.3 million for the first quarter of 2015 and \$0.9 million in the year-earlier quarter. The gain on transfer of covered loans to OREO increased as a result of improvements in the portfolio's credit quality and general market conditions. Net gain on sale of covered OREO was \$1.4 million in the second quarter of 2015, compared with \$12 thousand in the first quarter of 2015 and \$2.6 million in the year-earlier quarter. Total net expense from the removal of the indemnification asset for all other covered asset removals, excluding the removal of indemnification asset for loans that were paid off or fully charged off, was \$1.9 million in the second quarter of 2015, \$0.2 million in the first quarter of 2015 and \$2.6 million in the year-earlier quarter. The fluctuations in net gain on sale of covered OREO and related expense from the indemnification asset were driven by OREO sale volume.

Loan recoveries on previously charged-off covered loans are also shared with the FDIC. The portion that is payable to the FDIC is recognized as Loan recoveries shared with FDIC under FDIC loss sharing income or expense. The Company recognized expenses of \$3.4 million in the second quarter of 2015, \$2.5 million in the first quarter of 2015 and \$9.9 million in the year-earlier quarter. The Company has recognized significant loan recoveries in the last several years as a result of increases in the value of real estate collateral and improvements in the financial condition of borrowers or guarantors.

Other Expenses

Noninterest expense related to covered assets includes OREO expense, legal and professional expense, and other covered asset expenses. These expenses are subject to FDIC reimbursement, but must meet certain FDIC criteria in order to be reimbursed. Certain amounts reflected in the table above may not be reimbursable by the FDIC. The FDIC reimbursements related to qualified expenses are recognized as income in Net FDIC reimbursement for OREO and loan expenses under FDIC loss sharing income or expense.

Total OREO expense, which includes valuation write-downs, holding costs and foreclosure expenses was \$1.0 million for the second quarter of 2015, down from \$2.5 million for the first quarter of 2015 and \$2.3 million for the year-earlier quarter. The decrease in total OREO expense from the prior periods was primarily due to lower valuation write-downs during the second quarter of 2015. Legal and professional fees related to covered assets were \$1.3 million in the second quarter of 2015, up from \$0.5 million in the first quarter of 2015 and \$1.0 million in the year-earlier quarter. Net FDIC reimbursement for these expenses of \$0.8 million for the second quarter of 2015 decreased from \$2.6 million for the first quarter of 2015 and \$2.2 million for the second quarter of 2014.

Other Information on the FDIC Indemnification Asset

The following table is a summary of activity in the FDIC indemnification asset for the three and six months ended June 30, 2015 and 2014:

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Balance, beginning of period	\$ 43,256	\$ 84,851	\$ 50,511	\$ 89,227
Indemnification asset amortization	(2,009)	(3,320)	(4,390)	(6,484)
Loss on indemnification asset	(2,826)	(4,392)	(4,137)	(793)
Reductions (1)	(3,622)	(9,101)	(7,185)	(13,912)

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Balance, end of period	\$	34,799	\$	68,038	\$	34,799	\$	68,038
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(1) The FDIC indemnification asset is reduced upon covered asset removals, funding of covered unfunded loan commitments, partial charge-offs and OREO write-downs.

The indemnification asset amortization, loss on indemnification asset, and the impact of the reduction of indemnification asset for covered asset removals and funding of unfunded commitments are recognized in the FDIC loss sharing income or expense line item on the consolidated statements of income.

When a covered asset is charged off or written down and is subject to FDIC reimbursement under the FDIC loss-sharing agreements, the Company records the estimated amount of reimbursement in an FDIC receivable account, which is classified in the Other Assets line of the consolidated balance sheet.

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Segment Operations

The Company's reportable segments are Commercial and Private Banking, Wealth Management and Other. For a more complete description of the segments, including summary financial information, see Note 18, *Segment Results*, of the Notes to the Unaudited Consolidated Financial Statements.

Commercial and Private Banking

Net income for the Commercial and Private Banking segment increased to \$54.2 million for the second quarter of 2015 from \$47.0 million for the second quarter of 2014. Net income for the six months ended June 30, 2015 was \$98.9 million, up from \$86.0 million for the year-earlier period. The increase in net income for the current quarter from the year-earlier quarter was primarily due to higher net interest income and growth in noninterest income. These increases were partially offset by higher provision for all loans and leases and higher noninterest expense. The increase in net income for the first half of 2015 compared with the year-earlier period was due to higher net interest income, growth in noninterest income and lower provision for credit losses on covered loans. These increases were partially offset by higher provision on non-covered loans and higher noninterest expense.

Net interest income increased to \$227.8 million for the second quarter of 2015 from \$208.3 million for the year-earlier quarter. Net interest income for the six months ended June 30, 2015 increased to \$436.0 million from \$398.1 million for the same period in 2014. The increase from the prior-year periods was primarily attributable to organic loan growth and a sizable recovery on a non-covered loan during the second quarter of 2015, partially offset by lower interest income from covered loans. Average loans and leases, excluding covered loans in the segment grew 19 percent to \$21.22 billion for the second quarter of 2015 from \$17.90 billion for the same period in 2014. Average loans and leases for the six months ended June 30, 2015 increased to \$20.79 billion, or by 18 percent from \$17.59 billion for the year-earlier period. Average covered loans decreased to \$455.4 million for the current quarter from \$643.7 million for the second quarter of 2014, and \$473.8 million for the first six months of 2015 compared to \$669.8 million for the same period in 2014.

The growth in net interest income was also a result of continued core deposit growth. The Asset Liability Funding Center (Funding Center), which is used for funds transfer pricing, pays the business line units for generating deposits. Average deposits for this segment increased by 11 percent to \$28.43 billion for the three months ended June 30, 2015 from \$25.58 billion for the year-earlier quarter, and increased by 11 percent to \$27.99 billion for the six months ended June 30, 2015 from \$25.32 billion for the same period in 2014. The increase was driven by new client relationships and growth in deposits of existing clients.

The segment recorded a \$10.0 million provision for credit losses on loans and leases, excluding covered loans, for the three and six months ended June 30, 2015. The segment recorded a \$1.0 million reversal of provision for credit losses on non-covered loans for the three and six months ended June 30, 2014. Provision for losses on covered loans was \$1.1 million and \$1.6 million for the three and six months ended June 30, 2015, respectively, compared to a \$1.5 million reversal of provision and \$3.2 million provision for the three and six months ended June 30, 2014. Refer to Results of Operations Provision for Credit Losses and Balance Sheet Analysis Loan and Lease Portfolio Asset Quality included elsewhere in this report for further discussion of the provision. Refer to Results of Operations Covered Assets included elsewhere in this report for further discussion of the provision for losses on covered loans.

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Noninterest income for the second quarter of 2015 was \$55.5 million, up 44 percent from \$38.5 million for the prior-year quarter. Noninterest income for the six months ended June 30, 2015 increased 27 percent to \$107.0 million, from \$84.6 million for the year-earlier period. The increase from prior periods was largely due to lower FDIC loss sharing expense and higher income from client swap transactions. Also contributing to the increase was higher wealth management fee income, as revenues associated with wealth management products and services utilized by Commercial and Private Banking clients are allocated to this segment.

Noninterest expense, including depreciation and amortization, was \$188.2 million for the three months ended June 30, 2015, up 6 percent from \$177.1 million for the year-earlier quarter. Noninterest expense, including depreciation and amortization, increased to \$380.7 million for the first half of 2015, up 10 percent from \$346.8 million for the same period in 2014. The increase was primarily due to higher salaries and incentive compensation expense, and higher FDIC assessments due to increased balance sheet size.

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Wealth Management

The Wealth Management segment had net income attributable to City National Corporation of \$8.0 million for the second quarter of 2015, up from net income of \$6.6 million for the year-earlier quarter. Net income attributable to City National Corporation for the six months ended June 30, 2015 was \$20.4 million compared to \$12.3 million for the year-earlier period.

Noninterest income increased 2 percent to \$70.3 million for the second quarter of 2015 from \$68.7 million for the year-earlier quarter, and by 10 percent to \$145.4 million for the six months ended June 30, 2015 from \$132.1 million for the same period in 2014. The increase from prior periods was mainly due to higher wealth management fees, driven by asset inflows from new and existing clients and market appreciation. Refer to Results of Operations Noninterest Income Wealth Management included elsewhere in this report for further discussion of the factors impacting income for the Wealth Management segment.

Noninterest expense, including depreciation and amortization, was \$58.2 million for the second quarter of 2015, down 1 percent from \$58.6 million for the year-earlier quarter. Noninterest expense, including depreciation and amortization, increased 2 percent to \$114.8 million for the six months ended June 30, 2015 from \$112.6 million for the year-earlier period. The decrease in expense from the year-earlier quarter was largely due to lower employee benefits expense and lower sub-advisory expenses associated with advised funds. The increase in noninterest expense for the first six months of 2015 from the year-earlier period was primarily due to higher salary and incentive compensation expense, net of the impact of the sale of the retirement services business during the third quarter of 2014.

Other

Net income for the Other segment decreased to \$6.4 million for the second quarter of 2015 from \$11.9 million for the second quarter of 2014. Net income decreased to \$10.8 million for the six months ended June 30, 2015 from \$20.9 million for the same period in 2014. The decrease in net income was due to lower noninterest income, lower net interest income and higher depreciation and amortization expense, partially offset by lower noninterest expense.

Net interest income was \$8.1 million and \$15.6 million for the three and six months ended June 30, 2015, down from \$10.3 million and \$20.0 million for the same periods in 2014. The Funding Center, which is included in the Other segment, charges the business line units for loans and pays them for generating deposits. During the second quarter of 2015, funding credit given to the Commercial and Private Banking segment increased compared with the year-earlier quarter due to higher average deposit balances. Also, funding charges applied to loan balances in the lending units remain low due to the low interest rate environment. Both of these circumstances resulted in lower net interest income in the Other segment and higher net interest income in the Commercial and Private Banking segment. The decrease in net interest income in the Other segment was partially offset by lower interest expense from the redemption of \$105.0 million in subordinated notes during the third quarter of 2014.

Noninterest income (loss) was (\$13.0) million for the current quarter compared with (\$6.1) million for the second quarter of 2014. Noninterest income (loss) increased to (\$28.5) million for the six months ended June 30, 2015 from (\$14.4) million for the year-earlier period. Noninterest expense (income), including depreciation and amortization was (\$14.8) million and (\$29.4) million for the three and six months ended June 30, 2015, respectively, compared with (\$14.1) million and (\$26.9) million for the same periods in 2014. The changes in noninterest income (loss)

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and expense (income) compared with the same periods in 2014 was primarily due to an increase in the elimination of inter-segment revenues and costs (recorded in the Other segment) associated with wealth management products and services compared to the year-earlier periods. Also contributing to the change in noninterest expense was an increase in depreciation and amortization expense related to fixed assets and software. Noninterest expense included \$2.2 million and \$5.4 million in transaction costs related to the planned merger with RBC in the second quarter and first six months of 2015, respectively.

Table of Contents**Income Taxes**

The Company recognized income tax expense of \$37.7 million during the second quarter of 2015, compared with tax expense of \$30.6 million in the first quarter of 2015 and \$35.1 million in the year-earlier quarter. The effective tax rate was 35.3 percent of pretax income for the second quarter of 2015, compared with 33.0 percent for the first quarter of 2015 and 34.7 percent for the year-earlier quarter. The higher tax rate during the second quarter of 2015, when compared to the year-earlier quarter, was attributable to higher projections on current year income. The effective tax rates differ from the applicable statutory federal and state tax rates due to various factors, including tax benefits from investments in affordable housing partnerships, tax-exempt income on municipal bonds, bank-owned life insurance and other adjustments.

Income tax expense and effective tax rates for prior periods reflect the retrospective adoption of ASU 2014-01 on January 1, 2015. See Note 1, *Summary of Significant Accounting Policies*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion of ASU 2014-01. See Note 13, *Income Taxes*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion of income taxes.

BALANCE SHEET ANALYSIS

Total assets were \$33.76 billion at June 30, 2015, an increase of 10 percent from \$30.81 billion at June 30, 2014 and up 3 percent from \$32.70 billion at March 31, 2015. Average assets for the second quarter of 2015 increased 10 percent to \$32.88 billion from \$29.97 billion for the second quarter of 2014. Total average interest-earning assets for the second quarter of 2015 were \$31.16 billion, up 10 percent from \$28.28 billion for the second quarter of 2014. The increase in assets from the year-earlier quarter primarily reflects higher loan balances.

Securities

At June 30, 2015, the Company had total securities of \$8.47 billion, comprised of securities available-for-sale at fair value of \$4.94 billion, securities held-to-maturity at amortized cost of \$3.42 billion and trading securities at fair value of \$110.1 million. The Company had total securities of \$9.48 billion at December 31, 2014, comprised of securities available-for-sale at fair value of \$5.88 billion, securities held-to-maturity at amortized cost of \$3.43 billion and trading securities at fair value of \$173.2 million. At June 30, 2014, the Company had total securities of \$8.83 billion, comprised of securities available-for-sale at fair value of \$5.33 billion, securities held-to-maturity at amortized cost of \$3.42 billion and trading securities at fair value of \$86.1 million. The decrease in securities available-for-sale since year-end 2014 reflects the Company's strategy to fund loan growth with cash flow from the securities portfolio to the extent possible.

The following is a summary of amortized cost and estimated fair value for the major categories of securities available-for-sale and held-to-maturity:

(in thousands)	June 30, 2015		December 31, 2014		June 30, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value

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Securities available-for-sale:												
U.S. Treasury	\$	148,263	\$	148,308	\$	116,919	\$	116,926	\$	36,213	\$	36,258
Federal agency - Debt		899,379		899,934		1,401,303		1,398,581		1,027,192		1,026,516
Federal agency - MBS		95,778		96,878		102,939		104,526		121,501		123,229
CMOs - Federal agency		3,295,300		3,286,076		3,599,831		3,580,590		3,552,834		3,539,319
CMOs - Non-agency		22,091		21,731		24,385		24,014		27,168		26,903
State and municipal		395,350		400,055		473,272		479,031		384,359		392,593
Other debt securities		86,308		87,395		174,352		176,169		174,723		177,987
Total available-for-sale debt securities		4,942,469		4,940,377		5,893,001		5,879,837		5,323,990		5,322,805
Equity securities and mutual funds		664		466		1,508		3,146		621		5,687
Total available-for-sale securities	\$	4,943,133	\$	4,940,843	\$	5,894,509	\$	5,882,983	\$	5,324,611	\$	5,328,492

Securities held-to-maturity (1):												
Federal agency - Debt	\$	323,805	\$	330,070	\$	292,932	\$	299,107	\$	302,918	\$	306,381
Federal agency - MBS		578,603		586,945		553,589		564,741		554,421		559,691
CMOs - Federal agency		1,684,687		1,704,040		1,811,574		1,831,280		1,883,461		1,889,954
State and municipal		749,253		753,873		682,705		703,440		579,473		587,591
Other debt securities		85,831		86,014		86,231		86,079		98,080		98,367
Total held-to-maturity securities	\$	3,422,179	\$	3,460,942	\$	3,427,031	\$	3,484,647	\$	3,418,353	\$	3,441,984

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

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The average duration of the \$4.94 billion available-for-sale portfolio was 1.9 years at June 30, 2015, down from 2.2 years at June 30, 2014 and 2.0 years at December 31, 2014. The decrease in average duration reflects a continued rotation from longer-duration to shorter-duration securities in the available-for-sale portfolio.

Changes in the fair value of securities available-for-sale will impact other comprehensive income, and thus shareholders' equity, on an after-tax basis. Securities held-to-maturity are presented in the consolidated balance sheets at amortized cost. Changes in the fair value of securities held-to-maturity do not have an impact on other comprehensive income. At June 30, 2015, the available-for-sale securities portfolio had a net unrealized loss of \$2.3 million, consisting of \$28.5 million of unrealized gains and \$30.8 million of unrealized losses. At December 31, 2014, the available-for-sale securities portfolio had a net unrealized loss of \$11.5 million, comprised of \$32.8 million of unrealized gains and \$44.3 million of unrealized losses. At June 30, 2014, the available-for-sale securities portfolio had a net unrealized gain of \$3.9 million, comprised of \$49.1 million of unrealized gains and \$45.2 million of unrealized losses. The decrease in the net unrealized loss related to debt securities at June 30, 2015 compared to December 31, 2014 was due to lower interest rates and other market conditions that, in general, resulted in higher market prices for the securities owned. The increase in the unrealized loss on debt securities at June 30, 2015 from the year-earlier quarter was due to higher interest rates.

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at June 30, 2015, 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	\$ 72,793	\$ 75,515	\$	\$	148,308
Federal agency - Debt	476,226	423,708			899,934
Federal agency - MBS		96,878			96,878
CMOs - Federal agency	120,247	2,988,305	177,524		3,286,076
CMOs - Non-agency	1,223	20,508			21,731
State and municipal	175,966	220,741		3,348	400,055
Other	38,636	48,759			87,395
Total debt securities available-for-sale	\$ 885,091	\$ 3,874,414	\$ 177,524	\$ 3,348	\$ 4,940,377
Amortized cost	\$ 882,733	\$ 3,877,641	\$ 178,695	\$ 3,400	\$ 4,942,469
Securities held-to-maturity:					
Federal agency - Debt	\$	\$ 23,000	\$ 149,266	\$ 151,539	\$ 323,805
Federal agency - MBS		47,500	526,581	4,522	578,603
CMOs - Federal agency	9,728	762,883	912,076		1,684,687
State and municipal		141,904	401,476	205,873	749,253
Other		85,831			85,831
Total debt securities held-to-maturity at amortized cost	\$ 9,728	\$ 1,061,118	\$ 1,989,399	\$ 361,934	\$ 3,422,179

Impairment Assessment

The Company performs a quarterly assessment of the debt and equity securities held in its investment portfolio to determine whether a decline in fair value below amortized cost is other-than-temporary. If a decline in fair value is determined to be other-than-temporary, the cost basis of the individual security is written down to fair value which then becomes the security's new cost basis. The new cost basis is not adjusted for subsequent recoveries in fair value.

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The Company recorded impairment losses in earnings on securities available-for-sale of \$0.3 million for the three and six months ended June 30, 2015. The Company recorded impairment losses in earnings on securities available-for-sale of \$0.2 million for the three and six months ended June 30, 2014. The Company recognized an after-tax amount of \$0.2 million of non-credit-related other-than-temporary impairment in accumulated other comprehensive income or loss (AOCI) on securities available-for-sale at June 30, 2015 and 2014. No impairment losses were recognized in earnings or AOCI for securities held-to-maturity during the three and six months ended June 30, 2015 and 2014.

Of the total securities available-for-sale in an unrealized loss position at June 30, 2015, approximately \$1.27 billion of securities with unrealized losses of \$3.7 million were in a continuous unrealized loss position for less than 12 months, and \$1.27 billion of securities with unrealized losses of \$27.1 million were in a continuous loss position for more than 12 months. Securities in a loss position and total gross unrealized losses were comprised mostly of federal agency CMOs and federal agency MBS securities. At December 31, 2014, approximately \$2.03 billion of securities with unrealized losses of \$6.7 million were in a continuous unrealized loss position for less than 12 months and \$1.47 billion of securities with unrealized losses of \$37.6 million were in a continuous loss position for more than 12 months. At June 30, 2014, approximately \$739.0 million of securities with unrealized losses of \$2.0 million were in a continuous unrealized loss position for less than 12 months and \$1.67 billion of securities with unrealized losses of \$43.2 million were in a continuous loss position for more than 12 months.

See Note 3, *Securities*, of the Notes to the Unaudited Consolidated Financial Statements for further disclosures related to the securities portfolio.

Loan and Lease Portfolio

A comparative period-end loan and lease table is presented below:

Loans and Leases

(in thousands)	June 30, 2015	December 31, 2014	June 30, 2014
Commercial	\$ 10,061,735	\$ 9,360,976	\$ 8,230,112
Commercial real estate mortgages	3,850,915	3,539,703	3,464,918
Residential mortgages	5,490,375	5,106,803	4,814,435
Real estate construction	877,838	710,224	457,557
Home equity loans and lines of credit	787,417	785,796	716,816
Installment	199,583	184,613	183,518
Lease financing	661,465	649,091	607,432
Loans and leases, excluding covered loans	21,929,328	20,337,206	18,474,788
Less: Allowance for loan and lease losses	(316,922)	(310,149)	(311,276)
Loans and leases, excluding covered loans, net	21,612,406	20,027,057	18,163,512
Covered loans	434,033	510,979	605,770
Less: Allowance for loan losses	(8,075)	(8,608)	(9,103)
Covered loans, net	425,958	502,371	596,667

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Total loans and leases	\$	22,363,361	\$	20,848,185	\$	19,080,558
Total loans and leases, net	\$	22,038,364	\$	20,529,428	\$	18,760,179

Total loans and leases were \$22.36 billion, \$20.85 billion and \$19.08 billion at June 30, 2015, December 31, 2014 and June 30, 2014, respectively. Total loans, excluding covered loans, were \$21.93 billion, \$20.34 billion and \$18.47 billion at June 30, 2015, December 31, 2014 and June 30, 2014, respectively.

Total loans and leases, excluding covered loans, at June 30, 2015 increased 8 percent from December 31, 2014 and 19 percent from June 30, 2014. Commercial loans, including lease financing, were up 7 percent from year-end 2014 and 21 percent from the year-earlier quarter. Commercial real estate mortgage loans increased 9 percent from year-end 2014 and 11 percent from the year-earlier quarter. Residential mortgages grew by 8 percent and 14 percent from the same periods, respectively. Real estate construction loans increased 24 percent from year-end 2014 and 92 percent from June 30, 2014.

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Covered loans represent loans acquired from the FDIC that are subject to loss-sharing agreements. They totaled \$434.0 million as of June 30, 2015, \$511.0 million as of December 31, 2014 and \$605.8 million as of June 30, 2014. Covered loans, net of allowance for loan losses, were \$426.0 million as of June 30, 2015, \$502.4 million as of December 31, 2014 and \$596.7 million as of June 30, 2014.

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

(in thousands)	June 30, 2015	December 31, 2014	June 30, 2014
Commercial	\$ 1,630	\$ 1,969	\$ 6,992
Commercial real estate mortgages	409,404	481,689	568,902
Residential mortgages	3,653	4,455	5,525
Real estate construction	16,313	18,790	20,742
Home equity loans and lines of credit	2,846	3,820	3,342
Installment	187	256	267
Covered loans	434,033	510,979	605,770
Less: Allowance for loan losses	(8,075)	(8,608)	(9,103)
Covered loans, net	\$ 425,958	\$ 502,371	\$ 596,667

Other

To grow loans and diversify and manage concentration risk of the Company's loan portfolio, the Company purchases and sells participations in loans. Included in this portfolio are purchased participations in Shared National Credits (SNC). Purchased SNC commitments at June 30, 2015 totaled \$4.39 billion or 13 percent of total loan commitments, compared to \$4.22 billion or 14 percent at December 31, 2014 and \$3.79 billion or 14 percent at June 30, 2014. Outstanding loan balances on purchased SNCs were \$2.08 billion, or approximately 10 percent of total loans outstanding, excluding covered loans, at June 30, 2015, compared to \$1.96 billion or 10 percent at December 31, 2014 and \$1.83 billion or 10 percent at June 30, 2014.

Bank regulatory guidance on risk management practices for financial institutions with high or increasing concentrations of commercial real estate (CRE) loans on their balance sheets emphasizes the need for sound internal risk management practices for those institutions that have experienced rapid growth in CRE lending, have notable exposure to specific types of CRE, or are approaching or exceeding the supervisory criteria used to evaluate CRE concentration risk. The supervisory criteria are: total reported loans for construction, land development and other land represent 100 percent of the institution's total risk-based capital, and both total CRE loans represent 300 percent or more of the institution's total risk-based capital and the institution's CRE loan portfolio has increased 50 percent or more within the last 36 months. As of June 30, 2015, total loans for construction, land development and other land represented 31 percent of total risk-based capital; total CRE loans represented 136 percent of total risk-based capital and the total portfolio of loans for construction, land development, other land and CRE increased 23 percent over the last 36 months.

Asset Quality

Credit Risk Management

The Company has a comprehensive methodology to monitor credit quality and prudently manage credit concentration within each portfolio. The methodology includes establishing concentration limits to ensure that the loan portfolio is diversified. The limits are evaluated quarterly and are intended to mitigate the impact of any segment on the Company's capital and earnings. The limits cover major industry groups, geography, product type, loan size and client relationship. Additional sub-limits are established for certain industries where the Bank has higher exposure. The concentration limits are approved by the Bank's Credit Policy Committee and reviewed annually by the Audit & Risk Committee of the Board of Directors.

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The loan portfolios are monitored through delinquency tracking and a dynamic risk rating process that is designed to detect early signs of deterioration. In addition, once a loan has shown signs of deterioration, it is transferred to a Special Assets Department that consists of professionals who specialize in managing problem assets. An oversight group meets quarterly or more frequently to review the progress of problem loans and OREO. Also, the Company has established portfolio review requirements that include a periodic review and risk assessment by the Risk Management Division that reports to the Audit & Risk Committee of the Board of Directors.

Geographic Concentrations and Economic Trends by Geographic Region

Although the Company's lending activities are predominantly in California, and to a lesser extent, New York, the Company has various specialty lending businesses that lend to businesses located throughout the United States of America and in certain foreign countries to facilitate trade finance activities. Excluding covered loans, California represented 73 percent of total loans outstanding and New York represented 9 percent as of June 30, 2015. The remaining 18 percent of total loans outstanding represented other states and countries. Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of California. The Company has most of its loans in large metropolitan California cities such as Los Angeles, San Francisco and San Diego, rather than in the outlying suburban communities that have seen higher declines in real estate values during the recession. Within the Company's Commercial loan portfolio, the five California counties with the largest exposures at June 30, 2015 are Los Angeles (37 percent), Orange (5 percent), San Diego (3 percent), Riverside (2 percent) and San Bernardino (2 percent). Within the Commercial Real Estate Mortgage loan portfolio, the five California counties with the largest exposures are Los Angeles (37 percent), San Diego (9 percent), Orange (8 percent), Riverside (4 percent) and Santa Clara (4 percent). For the Real Estate Construction loan portfolio, the concentration in California is predominately in Los Angeles (27 percent), San Diego (14 percent), Alameda (8 percent), Orange (8 percent) and Santa Clara (4 percent).

Within the Company's covered loan portfolio at June 30, 2015, the five states with the largest concentration were California (29 percent), Texas (12 percent), Arizona (7 percent), Nevada (6 percent) and Ohio (6 percent). The remaining 40 percent of total covered loans outstanding represented other states.

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

A consequence of lending activities is that losses may be experienced. The amount of such losses will vary from time to time depending upon the risk characteristics of the loan portfolio as affected by economic conditions, changing interest rates, and the financial performance of borrowers. The allowance for loan and lease losses and the reserve for off-balance sheet credit commitments which provide for the risk of losses inherent in the credit extension process, are increased by the provision for credit losses charged to operating expense. The allowance for loan and lease losses is decreased by the amount of charge-offs, net of recoveries. There is no exact method of predicting specific losses or amounts that ultimately may be charged off on particular segments of the loan portfolio.

The Company has an internal credit risk analysis and review staff that issues reports to the Audit & Risk Committee of the Board of Directors and continually reviews loan quality. This analysis includes a detailed review of the classification and categorization of problem loans, potential problem loans and loans to be charged off, an assessment of the overall quality and collectability of the portfolio, consideration of the credit loss experience, trends in problem loans and concentration of credit risk, as well as current economic conditions, particularly in California. Management then evaluates the allowance, determines its appropriate level and the need for additional provisions, and presents its analysis to the Audit & Risk Committee which ultimately reviews and approves management's recommendation.

The provision is the expense recognized in the consolidated statements of income to adjust the allowance and reserve to the level deemed appropriate by management, as determined through application of the Company's allowance methodology procedures. See "Critical Accounting Policies - Allowance for Loan and Lease Losses and Reserve for Off-Balance Sheet Credit Commitments" in the Company's 2014 Annual Report on Form 10-K. The process used for determining the adequacy of the reserve for off-balance sheet credit commitments is consistent with the process for the allowance for loan and lease losses.

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The following table summarizes activity in the allowance for loan and lease losses and the reserve for off-balance sheet credit commitments, excluding covered loans, for the three and six months ended June 30, 2015 and 2014. Activity is provided by loan portfolio segment which is consistent with the Company's methodology for determining the allowance for loan and lease losses.

Changes in Allowance for Loan and Lease Losses

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Loans and leases outstanding, excluding covered loans	\$ 21,929,328	\$ 18,474,788	\$ 21,929,328	\$ 18,474,788
Average loans and leases outstanding, excluding covered loans	\$ 21,281,468	\$ 17,959,191	\$ 20,845,516	\$ 17,650,520
Allowance for loan and lease losses (1)				
Balance, beginning of period	\$ 308,858	\$ 305,790	\$ 310,149	\$ 302,584
Loan charge-offs:				
Commercial	(2,875)	(12,862)	(5,700)	(14,821)
Commercial real estate mortgages				(5)
Residential mortgages				(482)
Home equity loans and lines of credit		(149)		(165)
Installment	(231)	(142)	(508)	(188)
Total charge-offs	(3,106)	(13,153)	(6,208)	(15,661)
Recoveries of loans previously charged-off:				
Commercial	599	7,503	1,715	9,235
Commercial real estate mortgages	42	27	1,202	127
Residential mortgages	37	190	76	225
Real estate construction	1,623	687	1,710	5,075
Home equity loans and lines of credit	35	43	73	202
Installment	198	1,068	418	1,332
Total recoveries	2,534	9,518	5,194	16,196
Net (charge-offs) recoveries	(572)	(3,635)	(1,014)	535
(Reversal of) provision for credit losses	10,000	(1,000)	10,000	(1,000)
Transfers (to) from reserve for off-balance sheet credit commitments	(1,364)	10,121	(2,213)	9,157
Balance, end of period	\$ 316,922	\$ 311,276	\$ 316,922	\$ 311,276
Net (charge-offs) recoveries to average loans and leases, excluding covered loans (annualized)	(0.01)%	(0.08)%	(0.01)%	0.01%
Allowance for loan and lease losses to total period-end loans and leases, excluding covered loans	1.45%	1.68%	1.45%	1.68%
Reserve for off-balance sheet credit commitments				
Balance, beginning of period	\$ 28,660	\$ 34,908	\$ 27,811	\$ 33,944
Transfers from (to) allowance	1,364	(10,121)	2,213	(9,157)
Balance, end of period	\$ 30,024	\$ 24,787	\$ 30,024	\$ 24,787

(1) The allowance for loan and lease losses in this table excludes amounts related to covered loans.

During the economic recession, the Company recognized significant charge-offs from 2008 to 2010. Total loan charge-offs have declined significantly in recent years due to improving economic and business conditions in the markets served by the Company. Higher loan recoveries in recent years were largely due to increases in the value of real estate collateral, improvements in the financial condition of the Company's clients and guarantors, and increases in recoveries related to the use of legal remedies available to the Company. Recoveries occurred throughout the loan portfolio; however, the majority of the recoveries related to a small group of credit relationships and were primarily concentrated in the commercial and real estate construction portfolios.

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The timing and amount of recoveries is inherently uncertain, imprecise and potentially volatile and is subject to a variety of factors, including but not limited to: general economic conditions, the willingness and financial capacity of the borrower, guarantors or third parties; additional changes in the realizable value of the collateral between the date of charge-off and the date of recovery, and the legal remedies available to the Company needed to effect recovery.

The Company anticipates the level of recoveries to significantly diminish in the foreseeable future as the amount of charge-offs that are available for recovery is significantly less than in prior periods and the charge-offs which remain have fewer opportunities for recovery due to the limited financial capacity and collateral value of the remaining charged-off loans.

Based on an evaluation of individual credits, previous loan and lease loss experience, management's evaluation of the current loan portfolio, and current economic conditions, management has allocated the allowance for loan and lease losses on non-covered loans for June 30, 2015, December 31, 2014 and June 30, 2014 as shown in the table below:

(in thousands)	Allowance amount			Percentage of total allowance		
	June 30, 2015	December 31, 2014	June 30, 2014	June 30, 2015	December 31, 2014	June 30, 2014
Commercial and lease financing	\$ 124,314	\$ 115,855	\$ 126,279	39%	37%	41%
Commercial real estate mortgages	48,649	44,745	50,651	15	15	16
Residential mortgages	9,660	10,296	10,296	3	3	3
Real estate construction	10,652	9,115	7,191	3	3	2
Home equity loans and lines of credit	5,404	6,609	6,575	2	2	2
Installment	2,208	2,228	2,284	1	1	1
Qualitative	116,035	121,301	108,000	37	39	35
Total	\$ 316,922	\$ 310,149	\$ 311,276	100%	100%	100%

While the allowance is allocated by loan type above, the allowance is general in nature and is available for the portfolio in its entirety.

The Company has a qualitative factor matrix to determine the amount of reserves needed for judgmental factors that are not attributable to or reflected in the Company's quantitative allowance models. The methodology to determine the qualitative reserves includes segmenting the Company's portfolio into three loan categories: Commercial real estate secured, Commercial and Consumer. The qualitative reserve factors are separated into numerically informed and judgmental categories. Numerically informed factors are linked to defined macroeconomic or bank-specific criteria such as portfolio growth, problem loan trends and concentrations. Judgmental factors are based on the Company's assessment of factors that include, but are not limited to, the legal and regulatory environment, internal systems and procedures, and entry into a new business. Each factor is assigned a risk level and a risk weight in points which is aggregated to determine the level of qualitative reserves. The factors are updated quarterly to reflect changing conditions. At June 30, 2015, the Company had total qualitative reserves of \$116.0 million, of which \$32.7 million, \$59.0 million and \$24.3 million were assigned to the Commercial real estate secured, Commercial and Consumer segments, respectively. The primary drivers of the qualitative reserves as of June 30, 2015 were loan growth, economic conditions, and loan and industry concentrations. The Company had total qualitative reserves of \$121.3 million and \$108.0 million as of December 31, 2014 and June 30, 2014, respectively.

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Nonaccrual loans, excluding covered loans, were \$29.0 million at June 30, 2015, down from \$42.2 million at December 31, 2014 and \$64.8 million at June 30, 2014. Net loan charge-offs were \$0.6 million and \$1.0 million for the three and six months ended June 30, 2015, compared to net loan charge-offs of \$3.6 million and net loan recoveries of \$0.5 for the same periods in 2014. Classified loans were \$219.9 million at June 30, 2015, up from \$190.8 million at December 31, 2014 but down from \$226.1 million at June 30, 2014. The Company recorded a \$10.0 million provision for loan and lease losses in the second quarter of 2015. The Company recorded no provision for loan losses in the first quarter of 2015 and a \$1.0 million reversal of provision in the second quarter of 2014.

The allowance for loan and lease losses, excluding covered loans, was \$316.9 million as of June 30, 2015, compared with \$310.1 million as of December 31, 2014 and \$311.3 million as of June 30, 2014. The ratio of the allowance for loan and lease losses as a percentage of total loans and leases, excluding covered loans, was 1.45 percent at June 30, 2015, compared to 1.53 percent at December 31, 2014 and 1.68 percent at June 30, 2014. The allowance for loan and lease losses as a percentage of nonperforming assets, excluding covered assets, was 906.22 percent, 586.26 percent and 450.79 percent at June 30, 2015, December 31, 2014 and June 30, 2014, respectively. The Company believes that its allowance for loan and lease losses continues to be appropriate.

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The following table summarizes the activity in the allowance for loan losses on covered loans for the three and six months ended June 30, 2015 and 2014:

(in thousands)	For the three months ended			For the six months ended		
	June 30,			June 30,		
	2015	2014		2015	2014	
Balance, beginning of period	\$ 9,752	\$ 18,439	\$	\$ 8,608	\$ 15,922	\$
(Reversal of) provision for losses	1,091	(1,461)		1,588	3,194	
Change in allowance due to loan removals	(2,768)	(7,875)		(2,121)	(10,013)	
Balance, end of period	\$ 8,075	\$ 9,103	\$	\$ 8,075	\$ 9,103	\$

The allowance for losses on covered loans was \$8.1 million at June 30, 2015, down from \$8.6 million at December 31, 2014 and \$9.1 million at June 30, 2014 due to the stabilizing credit quality of covered loans and portfolio run-off. The covered loan portfolio decreased 15 percent to \$434.0 million at June 30, 2015 from \$511.0 million at December 31, 2014 and 28 percent from \$605.8 million at June 30, 2014. The Company recorded a \$1.1 million and \$1.6 million provision for losses on covered loans during the three and six months ended June 30, 2015, respectively. The Company recorded a \$1.5 million reversal of provision for losses on covered loans during the three months ended June 30, 2014 and provision expense of \$3.2 million for the six months ended June 30, 2014. Refer to *Covered Assets* included elsewhere in this report for further discussion of the provision for loan losses on covered loans.

Impaired Loans

Loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. The assessment for impairment occurs when and while such loans are on nonaccrual, or when the loan has been restructured. When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the primary (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In these cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. As a final alternative, the observable market price of the debt may be used to assess impairment.

If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount), an impairment allowance is recognized by creating or adjusting the existing allocation of the allowance for loan and lease losses. Interest payments received on impaired loans are generally applied as follows: (1) to principal if the loan is on nonaccrual principal recapture status, (2) to interest income if the loan is on cash basis nonaccrual, and (3) to interest income if the impaired loan has been returned to accrual status.

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The following table presents information on impaired loans as of June 30, 2015, December 31, 2014 and June 30, 2014. Loan and lease balances reflect the recorded investment as of the reporting date.

(in thousands)	June 30, 2015		December 31, 2014		June 30, 2014	
	Loans and Leases	Related Allowance	Loans and Leases	Related Allowance	Loans and Leases	Related Allowance
Impaired loans, excluding covered loans (1):						
Impaired loans with an allowance	\$ 15,269	\$ 1,595	\$ 15,611	\$ 728	\$ 31,525	\$ 8,833
Impaired loans with no related allowance	35,176		45,611		58,090	
Total impaired loans, excluding covered loans	\$ 50,445		\$ 61,222		\$ 89,615	
Total impaired loans by loan type:						
Commercial	\$ 8,791	\$ 1,299	\$ 15,364	\$ 399	\$ 29,231	\$ 8,477
Commercial real estate mortgages	22,993	263	25,042	281	33,456	301
Residential mortgages	11,912	33	11,937	48	10,596	5
Real estate construction	5,816		6,609		12,846	
Home equity loans and lines of credit	933		2,270		3,436	
Installment					50	50
Total impaired loans, excluding covered loans	\$ 50,445	\$ 1,595	\$ 61,222	\$ 728	\$ 89,615	\$ 8,833

(1) Impaired loans include \$29.5 million, \$30.6 million and \$34.7 million of loans that are on accrual status at June 30, 2015, December 31, 2014 and June 30, 2014, respectively.

The recorded investment in impaired loans, excluding covered loans, was \$50.4 million at June 30, 2015, \$61.2 million at December 31, 2014 and \$89.6 million at June 30, 2014. There were no impaired covered loans at June 30, 2015, December 31, 2014 or June 30, 2014.

Troubled Debt Restructured Loans

At June 30, 2015, troubled debt restructured loans were \$24.8 million, before specific reserves of \$0.4 million. Troubled debt restructured loans were \$34.3 million, before specific reserves of \$0.7 million, at December 31, 2014 and \$45.4 million, before specific reserves of \$1.6 million, at June 30, 2014. Troubled debt restructured loans included \$19.2 million, \$18.9 million and \$22.0 million of restructured loans on accrual status at June 30, 2015, December 31, 2014 and June 30, 2014, respectively. At June 30, 2015, there were \$0.3 million of outstanding commitments to lend additional funds on restructured loans.

Nonaccrual and Past Due Loans

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Total nonperforming assets (nonaccrual loans and OREO), excluding covered assets, were \$35.0 million, or 0.16 percent of total loans and OREO, excluding covered assets, at June 30, 2015, compared with \$52.9 million, or 0.26 percent, at December 31, 2014, and \$69.1 million, or 0.37 percent, at June 30, 2014. Total nonperforming covered assets (nonaccrual covered loans and covered OREO) were \$11.3 million at June 30, 2015, \$12.8 million at December 31, 2014 and \$17.9 million at June 30, 2014.

Company policy requires that a loan be placed on nonaccrual status if either principal or interest payments are 90 days past due, unless the loan is both well secured and in process of collection, or if full collection of interest or principal becomes uncertain regardless of the time period involved. Covered loans accounted for under ASC 310-30 are generally considered accruing and performing loans as the loans accrete interest income over the estimated life of the loan when cash flows are reasonably estimable. Accordingly, acquired impaired covered loans that are contractually past due are still considered to be accruing and performing loans. If the timing and amount of future cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans and interest income is not recognized until the timing and amount of future cash flows can be reasonably estimated. There were no covered loans that were on nonaccrual status as of June 30, 2015, December 31, 2014 and June 30, 2014.

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Loans are considered past due following the date when either interest or principal is contractually due and unpaid. A summary of past due loans, excluding loans on nonaccrual status, is provided below:

(in thousands)	June 30, 2015	December 31, 2014	June 30, 2014
Past due loans, excluding covered loans			
30-89 days past due	\$ 18,254	\$ 11,903	\$ 13,644
90 days or more past due on accrual status:			
Commercial	32	148	1,418
Residential mortgages	2,172	921	379
Home equity loans and lines of credit	50	100	
Installment	480	346	4
Total 90 days or more past due on accrual status	\$ 2,734	\$ 1,515	\$ 1,801
Past due covered loans			
30-89 days past due	\$ 4,930	\$ 7,416	\$ 11,572
90 days or more past due on accrual status	21,085	28,344	31,011

The following table presents information on nonaccrual loans and OREO as of June 30, 2015, December 31, 2014 and June 30, 2014:

(in thousands)	June 30, 2015	December 31, 2014	June 30, 2014
Nonperforming assets, excluding covered assets			
Nonaccrual loans, excluding covered loans			
Commercial	\$ 8,337	\$ 15,096	\$ 27,314
Commercial real estate mortgages	2,726	3,575	9,216
Residential mortgages	11,088	11,943	9,031
Real estate construction	3,460	6,598	12,834
Home equity loans and lines of credit	3,371	4,864	6,090
Installment	29	84	125
Lease financing	4	7	172
Total nonaccrual loans, excluding covered loans	29,015	42,167	64,782
OREO, excluding covered OREO	5,957	10,736	4,269
Total nonperforming assets, excluding covered assets	\$ 34,972	\$ 52,903	\$ 69,051
Nonperforming covered assets			
OREO	\$ 11,311	\$ 12,760	\$ 17,944
Ratios (excluding covered assets):			
Nonaccrual loans as a percentage of total loans	0.13%	0.21%	0.35%
Nonperforming assets as a percentage of total loans and OREO	0.16	0.26	0.37
Allowance for loan and lease losses to nonaccrual loans	1,092.27	735.53	480.50
Allowance for loan and lease losses to total nonperforming assets	906.22	586.26	450.79

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All nonaccrual loans greater than \$1 million are considered impaired and are individually analyzed. The Company does not maintain a reserve for impaired loans where the carrying value of the loan is less than the fair value of the collateral, reduced by costs to sell. Where the carrying value of the impaired loan is greater than the fair value of the collateral, less costs to sell, the Company specifically establishes an allowance for loan and lease losses to cover the deficiency. This analysis ensures that the non-accruing loans have been appropriately reserved.

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The table below summarizes the total activity in nonaccrual loans, excluding covered loans, for the three and six months ended June 30, 2015 and 2014:

Changes in Nonaccrual Loans

(in thousands)	For the three months ended June 30,			For the six months ended June 30,		
	2015	2014		2015	2014	
Balance, beginning of the period	\$ 33,376	\$ 71,245	\$	\$ 42,167	\$ 68,651	\$
Loans placed on nonaccrual	7,862	11,542		8,637	24,097	
Net charge-offs	(622)	(239)		(2,262)	(2,159)	
Loans returned to accrual status	(1,403)	(3,961)		(3,047)	(5,443)	
Repayments (including interest applied to principal)	(10,198)	(13,694)		(16,480)	(20,253)	
Transfers to OREO		(111)			(111)	
Balance, end of the period	\$ 29,015	\$ 64,782	\$	\$ 29,015	\$ 64,782	\$

In addition to loans disclosed above as past due or nonaccrual, management has also identified \$20.1 million of credit facilities to 16 borrowers as of August 6, 2015, where the ability to comply with the present loan payment terms in the future is questionable. However, the inability of the borrowers to comply with repayment terms was not sufficiently probable to place the loan on nonaccrual status at June 30, 2015, and the identification of these loans is not necessarily indicative of whether the loans will be placed on nonaccrual status. This amount was determined based on analysis of information known to management about the borrowers' financial condition and current economic conditions. In the Form 10-Q for the period ended March 31, 2015, the Company reported that management had identified \$13.5 million of credit facilities to 15 borrowers where the ability to comply with the loan payment terms in the future was questionable. Management's classification of credits as nonaccrual, restructured or problems does not necessarily indicate that the principal is uncollectible in whole or part.

Other Real Estate Owned

The following tables provide a summary of OREO activity for the three and six months ended June 30, 2015 and 2014:

(in thousands)	For the three months ended June 30, 2015			For the three months ended June 30, 2014		
	Non-Covered OREO	Covered OREO	Total	Non-Covered OREO	Covered OREO	Total
Balance, beginning of period	\$ 5,957	\$ 11,552	\$ 17,509	\$ 9,412	\$ 24,855	\$ 34,267
Additions		2,830	2,830	110	1,987	2,097
Sales		(2,994)	(2,994)	(5,253)	(7,964)	(13,217)
Valuation adjustments		(77)	(77)		(934)	(934)
Balance, end of period	\$ 5,957	\$ 11,311	\$ 17,268	\$ 4,269	\$ 17,944	\$ 22,213

For the six months ended
June 30, 2015

For the six months ended
June 30, 2014

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(in thousands)	Non-Covered OREO	Covered OREO	Total	Non-Covered OREO	Covered OREO	Total
Balance, beginning of period	\$ 10,736	\$ 12,760	\$ 23,496	\$ 12,611	\$ 25,481	\$ 38,092
Additions		3,915	3,915	111	4,020	4,131
Sales	(4,779)	(3,625)	(8,404)	(8,439)	(10,468)	(18,907)
Valuation adjustments		(1,739)	(1,739)	(14)	(1,089)	(1,103)
Balance, end of period	\$ 5,957	\$ 11,311	\$ 17,268	\$ 4,269	\$ 17,944	\$ 22,213

OREO was \$17.3 million at June 30, 2015, \$23.5 million at December 31, 2014 and \$22.2 million at June 30, 2014, respectively. The OREO balance at June 30, 2015 includes covered OREO of \$11.3 million, compared with \$12.8 million at December 31, 2014 and \$17.9 million at June 30, 2014. The balance of OREO at June 30, 2015, December 31, 2014 and June 30, 2014 is net of valuation allowances of \$3.3 million, \$7.4 million and \$11.1 million, respectively.

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The Company recognized \$1.4 million in total net gain on the sale of OREO in the second quarter of 2015, compared to \$0.6 million in the first quarter of 2015 and \$6.9 million in the year-earlier quarter. The \$1.4 million net gain on the sale of OREO in the second quarter of 2015 was related to the sale of covered OREO, compared to \$12 thousand in the first quarter of 2015 and \$2.6 million in the year-earlier quarter.

Covered OREO expenses and valuation write-downs are recorded in the noninterest expense section of the consolidated statements of income and gains or losses on sale of covered OREO are recognized in the noninterest income section. Under the loss-sharing agreements, 80 percent of eligible covered OREO expenses, valuation write-downs, and losses on sales are reimbursable to the Company from the FDIC and 80 percent of covered gains on sales are payable to the FDIC. The portion of these expenses that is reimbursable or income that is payable is recorded in FDIC loss sharing income (expense), net in the noninterest income section of the consolidated statements of income.

Other Assets

The following table presents information on other assets:

(in thousands) (1)	June 30, 2015	December 31, 2014	June 30, 2014
Accrued interest receivable	\$ 81,412	\$ 80,721	\$ 74,250
Deferred compensation fund assets	93,842	92,199	88,613
Stock in government agencies	50,626	58,376	58,376
Private equity and alternative investments	27,477	29,212	29,748
Bank-owned life insurance	89,184	88,069	86,694
Derivative assets	51,671	51,586	43,264
Income tax receivable	44,030	29,463	
FDIC payable	(1,299)	(993)	(4,249)
Equipment on operating leases, net	11,698	18,544	26,085
Other	98,971	90,670	96,347
Total other assets	\$ 547,612	\$ 537,847	\$ 499,128

(1) Certain prior period amounts have been adjusted to reflect the adoption of ASU 2014-01. See Note 1, *Summary of Significant Accounting Policies*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion.

Deposits

Deposits totaled \$29.48 billion, \$28.11 billion and \$26.65 billion at June 30, 2015, December 31, 2014 and June 30, 2014, respectively. Average deposits totaled \$28.62 billion for the second quarter of 2015, a slight increase from \$28.55 billion for the fourth quarter of 2014 and an increase of 10 percent from \$25.91 billion for the second quarter of 2014. Core deposits, which include noninterest-bearing deposits and interest-bearing deposits excluding time deposits of \$100,000 and over, provide a stable source of low cost funding. Average core deposits were \$28.11 billion, \$28.06 billion and \$25.46 billion for the quarters ended June 30, 2015, December 31, 2014 and June 30, 2014, respectively, and represented 98 percent of total deposits for each respective period. Average noninterest-bearing deposits in the second quarter of 2015 increased 3 percent from

the fourth quarter of 2014 and were 17 percent higher from the year-earlier quarter.

Treasury Services deposit balances, which consist primarily of title, escrow, community association and property management deposits, averaged \$3.23 billion in the second quarter of 2015, compared with \$3.12 billion in the fourth quarter of 2014 and \$2.87 billion for the second quarter of 2014. The increases in Treasury Services deposits were primarily due to mortgage transaction activity, higher home purchase prices, an increase in 1031 Exchange transactions and the acquisition of new client relationships.

Borrowed Funds

Total borrowed funds were \$646.9 million, \$961.5 million and \$788.1 million at June 30, 2015, December 31, 2014 and June 30, 2014, respectively. Total average borrowed funds were \$663.3 million, \$639.5 million and \$738.1 million for the quarters ended June 30, 2015, December 31, 2014 and June 30, 2014, respectively.

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Short-term borrowings consist of funds with remaining maturities of one year or less and the current portion of long-term debt. Short-term borrowings were \$6.3 million as of June 30, 2015 compared to \$322.9 million as of December 31, 2014 and \$160.3 million as of June 30, 2014. Short-term borrowings at June 30, 2015 consist of the current portions of nonrecourse debt. The decrease in balance from year-end 2014 was primarily due to outstanding federal funds purchased at December 31, 2014. The decrease from the year-earlier quarter was primarily due to the redemption of \$105.0 million in subordinated debt during the third quarter of 2014.

Long-term debt consists of borrowings with remaining maturities greater than one year and is primarily comprised of senior notes, subordinated debt, junior subordinated debt and nonrecourse debt. Long-term debt was \$640.6 million, \$638.6 million and \$627.8 million as of June 30, 2015, December 31, 2014 and June 30, 2014, respectively. The Company's long-term borrowings have maturity dates ranging from July 2016 to November 2034.

Off-Balance Sheet

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and letters of credit, and to invest in affordable housing funds, private equity and other alternative investments. These instruments involve elements of credit, foreign exchange, and interest-rate risk, to varying degrees, in excess of the amount reflected in the consolidated balance sheets.

Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments, and will evaluate each client's creditworthiness on a case-by-case basis.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company had off-balance sheet credit commitments totaling \$10.17 billion at June 30, 2015, \$9.49 billion at December 31, 2014 and \$8.78 billion at June 30, 2014.

Standby letters of credit are commitments issued by the Company to guarantee the obligations of its clients to beneficiaries. Commercial letters of credit are issued on behalf of clients to ensure payment in connection with trade transactions. The Company had \$693.1 million in letters of credit at June 30, 2015, of which \$588.3 million relate to standby letters of credit and \$104.8 million relate to commercial letters of credit. The Company had \$718.0 million outstanding in letters of credit at December 31, 2014, of which \$607.6 million relate to standby letters of credit and \$110.4 million relate to commercial letters of credit.

As of June 30, 2015, the Company had private equity fund and alternative investment fund commitments of \$72.1 million, of which \$57.4 million was funded. As of December 31, 2014 and June 30, 2014, the Company had private equity and alternative investment fund commitments of \$67.4 million and \$66.4 million, of which \$59.4 million and \$58.5 million was funded, respectively.

Capital

In July 2013, the FDIC, the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System adopted a final rule that revises its risk-based and leverage capital requirements (referred to as the Basel III rule). The Basel III final rule implements a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement, and a higher minimum Tier 1 capital requirement. For banking organizations not subject to the advanced approaches rule, compliance with the standardized approach for determining risk-weighted assets and compliance with the transition period for the revised minimum regulatory capital ratios began on January 1, 2015. The transition period for the capital conservation buffer will begin on January 1, 2016 and the fully implemented regulatory capital ratios will be effective on January 1, 2019. Important elements of the Basel III rule include the following:

- Increased minimum capital requirements;
- Higher quality of capital so banks are better able to absorb losses;
- A leverage ratio concept for international banks and U.S. bank holding companies;
- Specific capital conservation buffers; and

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- A more uniform supervisory standard for U.S. financial institution regulatory agencies.

The Basel III rule became effective for the Company on January 1, 2015. At June 30, 2015, the Company reported a common equity tier 1 capital ratio of 8.60 percent, a tier 1 capital ratio of 9.67 percent, a total capital ratio of 11.70 percent and a tier 1 leverage ratio of 7.56 percent.

The following table presents the regulatory standards for well-capitalized institutions and the capital ratios for the Corporation and the Bank at June 30, 2015, December 31, 2014 and June 30, 2014:

	Regulatory Well-Capitalized Standards	June 30, 2015	December 31, 2014	June 30, 2014
City National Corporation (1)				
Common equity tier 1 capital (1)	6.50%	8.60%	N/A%	N/A%
Tier 1 risk-based capital	8.00	9.67	9.78	10.00
Total risk-based capital	10.00	11.70	11.95	12.81
Tier 1 leverage		7.56	7.22	7.43
Tangible common equity to tangible assets (2)		6.45	6.28	6.28
City National Bank (1)				
Common equity tier 1 capital (1)	6.50%	9.47%	N/A%	N/A%
Tier 1 risk-based capital	8.00	9.47	9.60	10.00
Total risk-based capital	10.00	11.55	11.74	12.78
Tier 1 leverage	5.00	7.41	7.08	7.45

(1) Risk-based capital ratios for the current period were calculated under Basel III rules, which became effective for the Company on January 1, 2015. Prior period data was based on Basel I rules. Common equity tier 1 capital under Basel III replaces Tier 1 common equity under Basel I.

(2) Tangible common equity to tangible assets is a non-GAAP financial measure that represents total common equity less identifiable intangible assets and goodwill divided by total assets less identifiable assets and goodwill. Management reviews tangible common equity to tangible assets in evaluating the Company's capital levels and has included this ratio in response to market participant and regulatory interest in tangible common equity as a measure of capital. See reconciliation of the GAAP financial measure to this non-GAAP financial measure below.

Reconciliation of GAAP financial measure to non-GAAP financial measure:

(in thousands)	June 30, 2015	December 31, 2014	June 30, 2014
Common equity	\$ 2,804,532	\$ 2,675,085	\$ 2,571,675

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Less: Goodwill and other intangible assets		(670,145)		(670,699)		(680,302)
Tangible common equity (A)	\$	2,134,387	\$	2,004,386	\$	1,891,373
Total assets	\$	33,760,498	\$	32,597,232	\$	30,805,230
Less: Goodwill and other intangible assets		(670,145)		(670,699)		(680,302)
Tangible assets (B)	\$	33,090,353	\$	31,926,533	\$	30,124,928
Tangible common equity to tangible assets (A)/(B)		6.45%		6.28%		6.28%

Note: Certain prior period amounts have been adjusted to reflect the adoption of ASU 2014-01. See Note 1, *Summary of Significant Accounting Policies*, of the Notes to the Unaudited Consolidated Financial Statements for further discussion.

The ratio of period-end equity to period-end assets was 9.10 percent, 9.03 percent and 9.22 percent as of June 30, 2015, December 31, 2014 and June 30, 2014, respectively. Period-end common shareholders' equity to period-end assets was 8.31 percent, 8.21 percent and 8.35 percent for the same periods, respectively.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET/LIABILITY MANAGEMENT

Market risk results from the variability of future cash flows and earnings due to changes in the financial markets. These changes may also impact the fair values of loans, securities and borrowings. The values of financial instruments may fluctuate because of interest rate changes, foreign currency exchange rate changes or other market changes. The Company's asset/liability management process entails the evaluation, measurement and management of market risk and liquidity risk. The principal objective of asset/liability management is to optimize net interest income subject to margin volatility and liquidity constraints over the long term. Margin volatility results when the rate reset (or repricing) characteristics of assets are materially different from those of the Company's liabilities. The Board of Directors approves asset/liability policies and annually reviews and approves the limits within which the risks must be managed. The Asset/Liability Management Committee (ALCO), which is comprised of senior management and key risk management individuals, sets risk management guidelines within the broader limits approved by the Board, monitors the risks and periodically reports results to the Board.

A quantitative and qualitative discussion about market risk is included on pages 72 to 77 of the Corporation's Form 10-K for the year ended December 31, 2014.

Liquidity Risk

Liquidity risk results from the mismatching of asset and liability cash flows. Funds for this purpose can be obtained in cash markets, by borrowing, or by selling certain assets. The objective of liquidity management is to manage cash flow and liquidity reserves so that they are adequate to fund the Company's operations and meet obligations and other commitments on a timely basis and at a reasonable cost. The Company achieves this objective through the selection of asset and liability maturity mixes that it believes best meet its needs. The Company's liquidity position is enhanced by its ability to raise additional funds as needed in the wholesale markets. Liquidity risk management is an important element in the Company's ALCO process, and is managed within limits approved by the Board of Directors and guidelines set by management. Attention is also paid to potential outflows resulting from disruptions in the financial markets or to unexpected credit events. These factors are incorporated into the Company's contingency funding analysis, and provide the basis for the identification of primary and secondary liquidity reserves.

In recent years, the Company's core deposit base has provided the majority of the Company's funding requirements. This relatively stable and low-cost source of funds, along with shareholders' equity, provided 95 percent and 94 percent of funding for average total assets for the second quarter and first six months of 2015, and 94 percent for the three and six months ended June 30, 2014, respectively. Strong core deposits are indicative of the strength of the Company's franchise in its chosen markets and reflect the confidence that clients have in the Company. The Company places a very high priority in maintaining this confidence through conservative credit and capital management practices and by maintaining significant on-balance sheet liquidity reserves.

Funding obtained through short-term wholesale or market sources averaged \$23.1 million and \$138.4 million for the three and six months ended June 30, 2015, compared to \$0.9 million and \$0.5 million for the year-earlier periods. The Company's liquidity position was also supported through longer-term borrowings (including the current portion of long-term debt) which averaged \$640.2 million and \$640.1 million for the

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three and six months ended June 30, 2015, compared with \$737.2 million and \$738.0 million for the year-earlier periods. Market sources of funds comprise a modest portion of total Bank funding and are managed within concentration and maturity guidelines reviewed by management and implemented by the Company's treasury department.

Liquidity is further provided by assets such as federal funds sold, reverse repurchase agreements, balances held at the Federal Reserve Bank, and trading securities, which may be immediately converted to cash at minimal cost. The aggregate of these assets averaged \$889.0 million and \$683.1 million for the second quarter and first six months of 2015, compared with \$930.9 million and \$917.1 million for the year-earlier periods, respectively. In addition, the Company has committed and unutilized secured borrowing capacity of \$6.49 billion as of June 30, 2015 from the Federal Home Loan Bank of San Francisco, of which the Bank is a member. The Company's investment portfolio also provides a substantial liquidity reserve. The portfolio of securities available-for-sale averaged \$4.95 billion and \$5.26 billion for the three and six months ended June 30, 2015 respectively. The portfolio of securities available-for-sale averaged \$5.28 billion and \$5.40 billion for the three and six months ended June 30, 2014 respectively. The unpledged portion of securities available-for-sale and held-to-maturity at fair value totaled \$6.55 billion at June 30, 2015. These securities could be used as collateral for borrowing or a portion of the securities available-for-sale could be sold.

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Net Interest Income Simulation: As part of its overall interest-rate risk management process, the Company performs stress tests on net interest income projections based on a variety of factors, including interest rate levels, changes in the relationship between the prime rate and short-term interest rates, and the shape of the yield curve. The Company uses a simulation model to estimate the severity of this risk and to develop mitigation strategies, including interest-rate hedges. The magnitude of the change is determined from historical volatility analysis. The assumptions used in the model are updated periodically and reviewed and approved by ALCO. In addition, the Board of Directors has adopted limits within which interest rate exposure must be contained. Within these broader limits, ALCO sets management guidelines to further contain interest-rate risk exposure.

The Company is naturally asset-sensitive due to its large portfolio of rate-sensitive commercial loans that are funded in part by noninterest-bearing and rate-stable core deposits. As a result, if there are no significant changes in the mix of assets and liabilities, the net interest margin increases when interest rates increase and decreases when interest rates decrease. The Company uses on and off-balance sheet hedging vehicles to manage risk. The Company uses a simulation model to estimate the impact of changes in interest rates on net interest income. Interest rate scenarios include stable rates and a 200 basis point and a 400 basis point parallel shift in the yield curve occurring gradually over a two-year period. The model is used to project net interest income assuming no changes in loans or deposit mix as it stood at June 30, 2015, as well as a dynamic simulation that includes changes to balance sheet mix in response to changes in interest rates. Loan yields and deposit rates change over the simulation horizon based on current spreads and adjustment factors that are statistically derived using historical rate and balance sheet data.

As of June 30, 2015, the Federal funds target rate was at a range of zero percent to 0.25 percent. Further declines in interest rates are not expected to significantly reduce earning asset yields or liability costs, nor have a meaningful effect on net interest margin. The Company's net interest income simulation for 2015 was performed under two rate scenarios: a 200 basis point gradual increase in rates and a 400 basis point gradual increase in rates, both over a 2-year horizon. Under the 200 basis point scenario, loans, excluding covered loans which are in a runoff mode, increase by 13 percent per year compared to the base case and deposits decline 4 percent per year. At June 30, 2015, a gradual 200 basis point parallel increase in the yield curve over the next 24 months assuming a static balance sheet would result in an increase in projected net interest income of approximately 5.1 percent in year one and 20.8 percent in year two over the base case. The dynamic simulation incorporates balance sheet changes resulting from a gradual 200 basis point increase in rates. In combination, these rate and balance sheet effects result in an increase in projected net interest income of approximately 9.0 percent in year one and 29.7 percent in year two over the base case. Under the 400 basis point scenario, loans, excluding covered loans which are in a runoff mode, increase by 13 percent per year compared to the base case and deposits decline 7.5 percent per year. At June 30, 2015, a gradual 400 basis point parallel increase in the yield curve over the next 24 months assuming a static balance sheet would result in an increase in projected net interest income of approximately 11.1 percent in year one and 42.5 percent in year two over the base case. This compares to an increase in projected net interest income of 11.3 percent in year one and 42.3 percent in year two over the base case at June 30, 2014. The dynamic simulation based on a gradual 400 basis point increase in rates results in an increase in projected net interest income of approximately 14.0 percent in year one and 45.8 percent in year two over the base case. Interest rate sensitivity has increased due to changes in the mix of the balance sheet, primarily growth in floating rate loans and non-rate sensitive deposits. The Company's asset sensitivity is primarily tied to changes in short-term rates due to its large portfolio of rate-sensitive loans and funding provided by noninterest-bearing and rate-stable core deposits. The Company's interest-rate risk exposure remains within Board limits and ALCO guidelines.

The Company's loan portfolio includes floating rate loans which are tied to short-term market index rates, adjustable rate loans for which the initial rate is fixed for a period from one year to as much as ten years, and fixed-rate loans whose interest rate does not change through the life of the transaction.

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The following table shows the composition of the Company's loan portfolio, including covered loans, by major loan category as of June 30, 2015. Each loan category is further divided into Floating, Adjustable and Fixed rate components. Floating rate loans are generally tied to either the Prime rate or to a LIBOR-based index.

(in millions)	Prime	Floating Rate LIBOR	Total	Adjustable	Fixed	Total Loans
Commercial and lease financing	\$ 2,855	\$ 6,286	\$ 9,141	\$ 61	\$ 1,521	\$ 10,723
Commercial real estate mortgages	255	2,265	2,520	78	1,253	3,851
Residential mortgages	6		6	3,976	1,508	5,490
Real estate construction	136	713	849		29	878
Home equity loans and lines of credit	748		748	3	36	787
Installment	102		102	1	97	200
Covered loans	10	57	67	308	59	434
Total loans and leases	\$ 4,112	\$ 9,321	\$ 13,433	\$ 4,427	\$ 4,503	\$ 22,363
Percentage of portfolio	18%	42%	60%	20%	20%	100%

Certain floating rate loans have a floor rate which is absolute and below which the loan rate will not fall even though market rates may be unusually low. At June 30, 2015, \$13.43 billion (60 percent) of the Company's loan portfolio was floating rate, of which \$11.60 billion (86 percent) was not impacted by rate floors. This is because either the loan contract does not specify a minimum or floor rate, or because the contractual loan rate is above the minimum rate specified in the loan contract. Of the loans which were at their contractual minimum rate, \$1.58 billion (12 percent) were within 0.75 percent of the contractual loan rate absent the effects of the floor. Thus, the rate on these loans will be relatively responsive to increases in the underlying Prime or LIBOR index, and all will adjust upwards should the underlying index increase by more than 0.75 percent. Only \$27.1 million of floating rate loans have floors that are more than 2 percent above the contractual rate formula. Thus, the yield on the Company's floating rate loan portfolio is expected to be highly responsive to changes in market rates. The following table shows the balance of loans in the Floating Rate portfolio stratified by spread between the current loan rate and the floor rate as of June 30, 2015:

(in millions)	Loans with No Floor and Current Rate Greater than Floor	Interest Rate Increase Needed for Loans Currently at Floor Rate to Become Floating			Total
		< 0.75%	0.76% - 2.00%	> 2.00%	
Prime	\$ 3,079	\$ 863	\$ 169	\$ 1	\$ 4,112
LIBOR	8,521	721	53	26	9,321
Total floating rate loans	\$ 11,600	\$ 1,584	\$ 222	\$ 27	\$ 13,433
% of total floating rate loans	86%	12%	2%	%	100%

Economic Value of Equity: The economic value of equity (EVE) model is used to evaluate the vulnerability of the market value of shareholders' equity to changes in interest rates. The EVE model calculates the expected cash flow of all of the Company's assets and liabilities under sharply higher and lower interest rate scenarios. The present value of these cash flows is calculated by discounting them using the interest rates for that scenario. The difference between the present value of assets and the present value of liabilities in each scenario is the EVE. The assumptions about the timing of cash flows, level of interest rates and shape of the yield curve are the same as those used in the net interest

income simulation. They are updated periodically and are reviewed by ALCO at least annually.

As of June 30, 2015, an instantaneous 200 basis point increase in interest rates results in a 4.4 percent decline in EVE. This compares to a 4.7 percent decline in EVE a year-earlier. The decrease in sensitivity is primarily due to changes in the mix of the balance sheet. Measurement of a 200 basis point decrease in rates as of June 30, 2015 and 2014 is not meaningful due to the current low rate environment.

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Interest-Rate Risk Management

Interest-rate swaps may be used to reduce cash flow variability and to moderate changes in the fair value of long-term financial instruments. Net interest income or expense associated with interest-rate swaps (the difference between the fixed and floating rates paid or received) is included in net interest income in the reporting periods in which they are earned. Derivatives are recorded on the consolidated balance sheets at their fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction. The Company had no interest-rate swaps designated as hedging instruments at June 30, 2015, December 31, 2014 and June 30, 2014.

The Company has not entered into any hedge transactions involving any other interest-rate derivative instruments, such as interest-rate floors, caps, and interest-rate futures contracts for its own portfolio in 2015. Under existing policy, the Company could use such financial instruments in the future if deemed appropriate.

Other Derivatives

The Company also offers various derivative products to clients and enters into derivative transactions in due course. These derivative contracts are offset by paired trades with unrelated bank counterparties. These transactions are not linked to specific Company assets or liabilities in the consolidated balance sheets or to forecasted transactions in a hedge relationship and, therefore, do not qualify for hedge accounting. The contracts are marked-to-market each reporting period with changes in fair value recorded as part of Other noninterest income in the consolidated statements of income. Fair values are determined from verifiable third-party sources that have considerable experience with the derivative markets. The Company provides client data to the third-party source for purposes of calculating the credit valuation component of the fair value measurement of client derivative contracts. At June 30, 2015 and 2014, the Company had entered into derivative contracts with clients (and offsetting derivative contracts with counterparties) having a notional balance of \$3.96 billion and \$3.30 billion, respectively.

Counterparty Risk and Collateral

Interest-rate swap agreements involve the exchange of fixed and variable-rate interest payments based upon a notional principal amount and maturity date. The Company's interest-rate swaps had no credit risk exposure at June 30, 2015, compared with \$0.2 million of credit risk exposure at June 30, 2014. The credit exposure represents the cost to replace, on a present value basis and at current market rates, all contracts outstanding by trading counterparty having an aggregate positive market value, net of margin collateral received. The Company's swap agreements require the deposit of cash or marketable debt securities as collateral for this risk if it exceeds certain market value thresholds. These requirements apply individually to the Corporation and to the Bank. No collateral had been received from swap counterparties at June 30, 2015 and June 30, 2014. The Company delivered cash and securities collateral valued at \$44.9 million on swap agreements at June 30, 2015 and \$29.4 million at June 30, 2014.

Market Risk Foreign Currency Exchange

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The Company enters into foreign-exchange contracts with its clients and counterparty banks primarily for the purpose of offsetting or hedging clients' transaction and economic exposures arising out of commercial transactions. The Company actively manages its foreign exchange exposures within prescribed risk limits and controls. At June 30, 2015, the Company's outstanding foreign exchange contracts for client accounts totaled \$989.4 million. The mark-to-market on foreign exchange contracts included in other assets and other liabilities totaled \$6.9 million and \$6.5 million, respectively, at June 30, 2015. At June 30, 2015, the Company had delivered cash collateral on foreign exchange contracts totaling \$1.1 million.

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ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

For a discussion of risk factors relating to the Company's business, refer to Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (Form 10-K). There has been no material change in the risk factors as previously disclosed in the Company's Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Purchase of Equity Securities by the Issuer and Affiliated Purchaser.

The information required by subsection (c) of this item regarding purchases by the Company during the quarter ended June 30, 2015 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act is incorporated by reference from the relevant portion of Part I, Item 1 of this report under Note 8.

ITEM 6. EXHIBITS

Exhibit No.

12	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Requirements.
31.1	Chief Executive Officer certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CITY NATIONAL CORPORATION
(Registrant)

DATE: August 7, 2015

/s/ Christopher J. Carey

CHRISTOPHER J. CAREY
Executive Vice President and
Chief Financial Officer
(Authorized Officer and
Principal Financial Officer)