CITY NATIONAL CORP
Form 10-Q
May 09, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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

For the transition period from to

Commission file number 1-10521

CITY NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

City National Plaza

555 South Flower Street, Los Angeles, California, 90071

(Address of principal executive offices)(Zip Code)

(213) 673-7700

(Registrant s telephone number, including area code)

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

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

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

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(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). o Yes x No

As of April 30, 2014, there were 54,961,350 shares of Common Stock outstanding (including unvested restricted shares).

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITY NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	$ 425,427	$ 183,227
Due from banks - interest-bearing	434,297	552,719
Federal funds sold and securities purchased under resale agreements	205,000	200,000
Securities available-for-sale - cost $5,394,065 and $6,267,691 at March 31, 2014 and December 31, 2013, respectively:		
Securities pledged as collateral	14,792	12,376
Held in portfolio	5,371,962	6,228,741
Securities held-to-maturity - fair value $3,165,068 and $2,883,935 at March 31, 2014 and December 31, 2013, respectively	3,202,997	2,957,843
Trading securities	61,608	82,357
Loans and leases, excluding covered loans	17,751,385	17,170,438
Less: Allowance for loan and lease losses	305,790	302,584
Loans and leases, excluding covered loans, net	17,445,595	16,867,854
Covered loans, net of allowance for loan losses	654,855	700,989
Net loans and leases	18,100,450	17,568,843
Premises and equipment, net	199,401	198,398
Deferred tax asset	212,611	217,990
Goodwill	642,622	642,622
Customer-relationship intangibles, net	39,134	40,621
Affordable housing investments	199,389	188,207
Customers acceptance liability	1,295	10,521
Other real estate owned ($24,855 and $25,481 covered by FDIC loss share at March 31, 2014 and December 31, 2013, respectively)	34,267	38,092
FDIC indemnification asset	84,851	89,227
Other assets	508,149	506,167
Total assets	$ 29,738,252	$ 29,717,951
Liabilities		
Demand deposits	$ 15,664,029	$ 16,058,968
Interest checking deposits	2,370,741	2,467,890
Money market deposits	6,610,811	6,022,457
Savings deposits	458,328	441,521
Time deposits-under $100,000	172,024	176,488
Time deposits-$100,000 and over	455,833	512,113
Total deposits	25,731,766	25,679,437
Short-term borrowings	4,107	3,889
Long-term debt	733,537	735,968
Reserve for off-balance sheet credit commitments	34,908	33,944
Acceptances outstanding	1,295	10,521
Other liabilities	391,038	473,438

Total liabilities		26,896,651		26,937,197
Redeemable noncontrolling interest		45,641		39,768
Commitments and contingencies				
Shareholders equity				
Preferred stock, par value $1.00 per share; 5,000,000 shares authorized; 275,000 shares issued at March 31, 2014 and December 31, 2013		267,616		267,616
Common stock, par value $1.00 per share; 75,000,000 shares authorized; 54,899,058 and 54,667,295 shares issued at March 31, 2014 and December 31, 2013, respectively		54,899		54,667
Additional paid-in capital		549,989		541,210
Accumulated other comprehensive loss		(4,363)		(15,641)
Retained earnings		1,950,356		1,918,163
Treasury shares, at cost - 388,156 and 483,523 shares at March 31, 2014 and December 31, 2013, respectively		(22,537)		(25,029)
Total common shareholders equity		2,528,344		2,473,370
Total shareholders equity		2,795,960		2,740,986
Total liabilities and shareholders equity	$	29,738,252	$	29,717,951

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share amounts)	For the three months ended March 31, 2014	2013
Interest income		
Loans and leases	$ 169,696	$ 170,290
Securities	41,576	44,262
Due from banks - interest-bearing	443	112
Federal funds sold and securities purchased under resale agreements	1,370	1,136
Total interest income	213,085	215,800
Interest expense		
Deposits	2,134	2,939
Federal funds purchased and securities sold under repurchase agreements		278
Subordinated debt	6,104	6,106
Other long-term debt	5,049	4,979
Other short-term borrowings		425
Total interest expense	13,287	14,727
Net interest income	199,798	201,073
Provision for credit losses on loans and leases, excluding covered loans		
Provision for losses on covered loans	4,655	9,892
Net interest income after provision	195,143	191,181
Noninterest income		
Trust and investment fees	53,306	46,653
Brokerage and mutual fund fees	10,042	8,066
Cash management and deposit transaction charges	12,033	13,009
International services	10,395	9,619
FDIC loss sharing expense, net	(7,083)	(4,352)
Gain on disposal of assets	2,826	1,114
Gain on sale of securities	2,122	1,046
Other	17,607	18,373
Impairment loss on securities:		
Total other-than-temporary impairment loss on securities		(492)
Less: Portion of loss recognized in other comprehensive income		492
Net impairment loss recognized in earnings		
Total noninterest income	101,248	93,528
Noninterest expense		
Salaries and employee benefits	136,833	128,195
Net occupancy of premises	16,094	15,989
Legal and professional fees	12,950	11,952
Information services	9,346	9,391
Depreciation and amortization	7,828	8,172
Amortization of intangibles	1,487	1,932
Marketing and advertising	9,775	7,976
Office services and equipment	4,910	4,946
Other real estate owned	1,433	5,250
FDIC assessments	1,391	5,481
Other operating	12,846	12,056
Total noninterest expense	214,893	211,340
Income before income taxes	81,498	73,369

Income taxes		26,288		21,261
Net income	$	55,210	$	52,108
Less: Net income attributable to noncontrolling interest		699		585
Net income attributable to City National Corporation	$	54,511	$	51,523
Less: Dividends on preferred stock		4,094		2,406
Net income available to common shareholders	$	50,417	$	49,117
Net income per common share, basic	$	0.91	$	0.90
Net income per common share, diluted	$	0.90	$	0.90
Weighted average common shares outstanding, basic		54,689		53,731
Weighted average common shares outstanding, diluted		55,429		54,068
Dividends per common share	$	0.33	$	

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the three months ended March 31,	
(in thousands)	**2014**	**2013**
Net income	$ 55,210	$ 52,108
Other comprehensive income (loss), net of tax:		
Securities available-for-sale:		
Net unrealized gains (losses) arising during the period	12,553	(11,523)
Reclassification adjustment for net gains included in net income	(1,275)	(516)
Non-credit related impairment loss		(286)
Net change on cash flow hedges		(35)
Total other comprehensive income (loss)	11,278	(12,360)
Comprehensive income	$ 66,488	$ 39,748
Less: Comprehensive income attributable to noncontrolling interest	699	585
Comprehensive income attributable to City National Corporation	$ 65,789	$ 39,163

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 three months ended March 31, 2014**	**2013**
Cash Flows From Operating Activities		
Net income	$ 55,210	$ 52,108
Adjustments to net income:		
Provision for losses on covered loans	4,655	9,892
Amortization of intangibles	1,487	1,932
Depreciation and amortization	7,828	8,172
Share-based employee compensation expense	5,397	5,091
Deferred income tax benefit	(2,679)	(598)
Gain on disposal of assets	(2,826)	(1,114)
Gain on sale of securities	(2,122)	(1,046)
Other, net	3,720	1,472
Net change in:		
Trading securities	20,678	61,692
Other assets and other liabilities, net	(88,574)	(25,394)
Net cash provided by operating activities	2,774	112,207
Cash Flows From Investing Activities		
Purchase of securities available-for-sale	(330,444)	(293,985)
Sales of securities available-for-sale	377,115	1,034,250
Maturities and paydowns of securities available-for-sale	823,410	695,518
Purchase of securities held-to-maturity	(282,679)	(9,965)
Maturities and paydowns of securities held-to-maturity	36,337	6,736
Loan originations, net of principal collections	(523,514)	(313,834)
Net payments for premises and equipment	(8,831)	(11,128)
Other investing activities, net	6,676	23,927
Net cash provided by investing activities	98,070	1,131,519
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	52,329	(564,769)
Net decrease in federal funds purchased		(510,600)
Net increase in short-term borrowings		100,000
Issuance of long-term debt	7,907	5,603
Repayment of long-term debt	(10,088)	(214,081)
Proceeds from exercise of stock options	13,207	11,835
Tax benefit from exercise of stock options	2,970	2,627
Cash dividends paid	(22,141)	(2,406)
Other financing activities, net	(16,250)	(404)
Net cash provided by (used in) financing activities	27,934	(1,172,195)
Net increase in cash and cash equivalents	128,778	71,531
Cash and cash equivalents at beginning of year	935,946	415,405
Cash and cash equivalents at end of period	$ 1,064,724	$ 486,936
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 22,121	$ 26,960
Income taxes	39,399	9,261
Non-cash investing activities:		

Transfer of loans to other real estate owned	$ 2,033	$ 9,675

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(in thousands, except share amounts)	Common shares issued	Preferred stock	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Total shareholders equity
Balance, January 1, 2013	53,885,886	$ 169,920	$ 53,886	$ 490,339	$ 86,582	$ 1,738,957	$ (34,366)	$ 2,505,318
Net income (1)						51,523		51,523
Other comprehensive loss, net of tax					(12,360)			(12,360)
Issuance of shares under share-based compensation plans	247,179		247	(337)			8,926	8,836
Share-based employee compensation expense				4,297				4,297
Tax benefit from share-based compensation plans				1,651				1,651
Dividends:								
Preferred						(2,406)		(2,406)
Common						(33)		(33)
Net change in deferred compensation plans				122				122
Change in redeemable noncontrolling interest				(59)				(59)
Balance, March 31, 2013	54,133,065	$ 169,920	$ 54,133	$ 496,013	$ 74,222	$ 1,788,041	$ (25,440)	$ 2,556,889
Balance, January 1, 2014	54,667,295	$ 267,616	$ 54,667	$ 541,210	$ (15,641)	$ 1,918,163	$ (25,029)	$ 2,740,986
Net income (1)						54,511		54,511
Other comprehensive income, net of tax					11,278			11,278
Issuance of shares under share-based compensation plans	231,763		232	6,702			2,492	9,426
Share-based employee compensation expense				4,459				4,459
Tax benefit from share-based compensation plans				2,866				2,866
Dividends:								
Preferred						(4,094)		(4,094)
Common						(18,224)		(18,224)
Net change in deferred compensation plans				181				181
Change in redeemable noncontrolling interest				(5,429)				(5,429)
Balance, March 31, 2014	54,899,058	$ 267,616	$ 54,899	$ 549,989	$ (4,363)	$ 1,950,356	$ (22,537)	$ 2,795,960

(1) Net income excludes net income attributable to redeemable noncontrolling interest of $699 and $585 for the three month periods ended March 31, 2014 and 2013, respectively. Redeemable noncontrolling interest is reflected in the mezzanine section of the consolidated balance sheets. See Note 17 of the Notes to the Unaudited Consolidated Financial Statements.

See accompanying Notes to the Unaudited Consolidated Financial Statements.

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CITY NATIONAL CORPORATION

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Organization

City National Corporation (the Corporation) is the holding company for City National Bank (the Bank). The Bank delivers banking, trust and investment services through 77 offices in Southern California, the San Francisco Bay area, Nevada, New York City, Nashville, Tennessee and Atlanta, Georgia. As of March 31, 2014, the Corporation had four consolidated investment advisory affiliates and one unconsolidated subsidiary, Business Bancorp Capital Trust I. Because the Bank comprises substantially all of the business of the Corporation, references to the Company mean the Corporation and the Bank together. The Corporation is approved as a financial holding company pursuant to the Gramm-Leach-Bliley Act of 1999.

Consolidation

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

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

Use of Estimates

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

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

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Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

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

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

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

Accounting Pronouncements

The following is a summary of accounting pronouncements that became effective during the three months ended March 31, 2014:

- In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* (ASU 2013-04). ASU 2013-04 provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements. Examples of obligations within the scope of the ASU include debt arrangements, other contractual obligations and settled litigation. ASU 2013-04 requires entities to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date, as the sum of (1) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors, and (2) any additional amount the reporting entity expects to pay on behalf of its co-obligors. Required disclosures include a description of the joint-and-several arrangement and the total outstanding amount of the obligation for all joint parties. Adoption of the new guidance on January 1, 2014 did not have a significant impact on the Company s consolidated financial statements.

- In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The new guidance requires an entity to present liabilities for unrecognized tax benefits in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, except as follows: (1) to the extent a net operating loss carryforward or tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or (2) the tax law of the applicable jurisdiction does not require the entity to use and the entity does not intend to use the deferred tax asset for such purpose. In these situations, the unrecognized tax benefit should be presented in the balance sheet as a liability and should not be combined with deferred tax assets. Adoption of the new guidance on January 1, 2014 did not have a significant impact on the Company s consolidated financial statements.

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Note 1. Summary of Significant Accounting Policies (Continued)

The following is a summary of recently issued accounting pronouncements:

- In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-08). ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under the revised standard, a discontinued operation is (1) a component of an entity or group of components that has been disposed of by sale, disposed of other than by sale or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity s operations and financial results or (2) an acquired business or nonprofit activity that is classified as held for sale on the date of the acquisition. A strategic shift that has or will have a major effect on an entity s operations and financial results could include the disposal of (1) a major line of business, (2) a major geographical area, (3) a major equity method investment or (4) other major parts of an entity. Under current guidance, an entity is prohibited from reporting a discontinued operation if it has certain continuing cash flows or involvement with the component after the disposal. The new guidance eliminates these criteria. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014, and interim periods therein. The new guidance will be applied prospectively. Early adoption is permitted. Adoption of the new guidance is not expected to have a significant impact on the Company s consolidated financial statements.

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

- In January 2014, the FASB issued ASU 2014-04, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure* (ASU 2014-04). ASU 2014-04 requires entities to reclassify consumer mortgage loans collateralized by residential real estate to OREO when either (1) the creditor obtains legal title to the residential real estate property or (2) the borrower conveys all interest in the property to the creditor to satisfy the loan by completing a deed in lieu of foreclosure or similar agreement. The ASU becomes effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Entities will have the option of adopting the guidance using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. Adoption of the new guidance is not expected to have a significant impact on the Company s consolidated financial statements.

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Note 2. Fair Value Measurements

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

(in thousands)	Balance as of March 31, 2014	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Measured on a Recurring Basis				
Assets				
Securities available-for-sale:				
U.S. Treasury	$ 185,313	$ 185,313	$	$
Federal agency - Debt	753,689		753,689	
Federal agency - MBS	125,613		125,613	
CMOs - Federal agency	3,689,946		3,689,946	
CMOs - Non-agency	36,348		36,348	
State and municipal	406,897		403,281	3,616
Other debt securities	178,408		178,408	
Equity securities and mutual funds	10,540	10,540		
Trading securities	61,608	58,354	3,254	
Derivatives (1)	35,469	3,088	32,381	
Total assets at fair value	$ 5,483,831	$ 257,295	$ 5,222,920	$ 3,616
Liabilities				
Derivatives	$ 34,596	$ 2,966	$ 31,630	$
Contingent consideration liability	34,061			34,061
FDIC clawback liability	12,931			12,931
Other liabilities	996		996	
Total liabilities at fair value (2)	$ 82,584	$ 2,966	$ 32,626	$ 46,992
Redeemable noncontrolling interest	$ 45,641	$	$	$ 45,641
Measured on a Nonrecurring Basis				
Assets				
Collateral dependent impaired loans (3):				
Residential mortgages	$ 1,300	$	$	$ 1,300
Other real estate owned (4)	17,536		355	17,181
Total assets at fair value	$ 18,836	$	$ 355	$ 18,481

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

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

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

(4) Includes covered OREO.

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Note 2. Fair Value Measurements (Continued)

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

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

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

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

(4) Includes covered OREO.

At March 31, 2014, $5.48 billion, or approximately 18 percent, of the Company s total assets were recorded at fair value on a recurring basis, compared with $6.36 billion, or 21 percent, at December 31, 2013. The majority of these financial assets were valued using Level 1 or Level 2 inputs. Less than one percent of total assets were measured using Level 3 inputs. At March 31, 2014, $82.6 million of the Company s total liabilities were recorded at fair value using mostly Level 2 or Level 3 inputs, compared with $95.9 million at December 31, 2013. There were no transfers between Level 1 and Level 2 of the fair value hierarchy for assets or liabilities measured on a recurring basis during the three months ended March 31, 2014. At March 31, 2014, $18.8 million of the Company s total assets were recorded at fair value on a nonrecurring basis, compared with $21.7 million at December 31, 2013. These assets represent less than one percent of total assets and were measured using Level 2 or Level 3 inputs.

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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 three months ended March 31, 2014 and 2013.

Level 3 Assets and Liabilities Measured on a Recurring Basis

	For the three months ended March 31, 2014			For the three months ended March 31, 2013		
(in thousands)	**Securities Available-for-Sale**	**Contingent Consideration Liability**	**FDIC Clawback Liability**	**Securities Available-for-Sale**	**Contingent Consideration Liability**	**FDIC Clawback Liability**
Balance, beginning of period	$ 3,633	$ (49,900)	$ (11,967)	$ 65,187	$ (47,724)	$ (9,970)
Total realized/unrealized gains (losses):						
Included in earnings			(964)			(795)
Included in other comprehensive income	(17)			(199)		
Settlements		16,250		(3,555)		
Other (1)		(411)		52	(549)	
Balance, end of period	$ 3,616	$ (34,061)	$ (12,931)	$ 61,485	$ (48,273)	$ (10,765)

(1) Other rollforward activity consists of amortization of premiums and accretion of discounts recognized on the initial purchase of securities available-for-sale and accretion of discount related to the contingent consideration liability.

Redeemable noncontrolling interest is classified as Level 3 in the fair value hierarchy and measured on a recurring basis. Redeemable noncontrolling interest is valued based on a combination of factors, including but not limited to, observable valuation of firms similar to the affiliates, multiples of revenue or profit, unique investment products or performance track records, strength in the marketplace, projected discounted cash flow scenarios, strategic value of affiliates to other entities, as well as unique sources of value specific to an individual firm. The methodology used to fair value these interests is consistent with the industry practice of valuing similar types of instruments. Refer to Note 17, *Noncontrolling Interest*, for a rollforward of activity for the three months ended March 31, 2014 and 2013.

Level 3 assets measured at fair value on a recurring basis consist of municipal auction rate securities that are included in securities available-for-sale. 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. During the first quarter of 2013, Level 3 assets measured on a recurring basis also included a collateralized debt obligation senior note classified as an available-for-sale security. This security was sold during the fourth quarter of 2013.

Level 3 liabilities measured at fair value on a recurring basis consist of contingent consideration and an FDIC clawback liability that are included in other liabilities. As part of its acquisition of Rochdale Investment Management, LLC and associated entities (collectively, Rochdale), the Company entered into a contingent consideration arrangement that requires the Company to pay additional cash consideration to Rochdale s former shareholders at certain points in time over the next six years if certain criteria, such as revenue growth and pre-tax margin, are met. During the first quarter of 2014, the Company made its first contingent consideration payment to Rochdale s former shareholders for approximately $16.3 million. The fair value of the remaining contingent consideration was estimated using a probability-weighted discounted cash flow model. Although the acquisition agreement does not set a limit on the total payment, the Company estimates that the remaining consideration payment could be in the range of $16 million to $58 million, but will ultimately be determined based on actual future results. The contingent consideration liability is remeasured to fair value at each reporting date until its settlement.

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

There were no purchases, sales, or transfers out of Level 3 assets measured on a recurring basis during the three months ended March 31, 2014 and 2013. Paydowns of $3.6 million were received on Level 3 assets measured on a recurring basis for the three months ended March 31, 2013.

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Note 2. Fair Value Measurements (Continued)

Nonrecurring Fair Value Measurements

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

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

Information About Nonrecurring Level 3 Fair Value Measurements

(in thousands)		**Fair Value at March 31, 2014**	**Valuation Method**	**Unobservable Inputs**
Collateral dependent impaired loans and other real estate owned	$	18,481	Market	- Assumptions made in the appraisal process - Adjustments to external or internal appraised values. Appraised values may be adjusted to reflect changes in market conditions that have occurred subsequent to the appraisal date, or for revised estimates regarding the timing or cost of the property sale. These adjustments are based on qualitative judgments made by management on a case-by-case basis. - Probability weighting of broker price opinions - Management assumptions regarding market trends or other relevant factors

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

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 months ended March 31, 2014 and 2013:

(in thousands)	For the three months ended March 31, 2014	2013
Collateral dependent impaired loans:		
Commercial real estate mortgages	$ (5)	$ 145
Residential mortgages		9
Home equity loans and lines of credit		116
Installment		(138)
Other real estate owned (1)	61	(2,853)
Private equity and alternative investments		(399)
Total net gains (losses) recognized	$ 56	$ (3,120)

(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.

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Note 2. Fair Value Measurements (Continued)

Fair Value of Financial Instruments

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

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

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.

	March 31, 2014				
	Carrying	Total	Fair Value Measurements Using		
(in millions)	**Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and due from banks	$ 425.4	$ 425.4	$ 425.4	$	$
Due from banks - interest bearing	434.3	434.3	434.3		
Federal funds sold and securities purchased under resale agreements	205.0	206.5	5.0	201.5	
Securities held-to-maturity	3,203.0	3,165.1		3,165.1	
Loans and leases, net of allowance	17,445.6	18,005.1			18,005.1
Covered loans, net of allowance	654.9	698.8			698.8
FDIC indemnification asset	84.9	70.1			70.1
Investment in FHLB and FRB stock	57.2	57.2		57.2	
Financial Liabilities:					
Deposits	$ 25,731.8	$ 25,734.2	$	$ 25,103.9	$ 630.3
Other short-term borrowings	4.1	4.1			4.1
Long-term debt	733.5	801.7		713.0	88.7

	December 31, 2013				
	Carrying	Total	Fair Value Measurements Using		
(in millions)	**Amount**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and due from banks	$ 183.2	$ 183.2	$ 183.2	$	$
Due from banks - interest bearing	552.7	552.7	552.7		

Securities purchased under resale agreements	200.0	200.5		200.5	
Securities held-to-maturity	2,957.8	2,883.9		2,883.9	
Loans and leases, net of allowance	16,867.9	17,362.9			17,362.9
Covered loans, net of allowance	701.0	739.5			739.5
FDIC indemnification asset	89.2	74.3			74.3
Investment in FHLB and FRB stock	64.4	64.4		64.4	
Financial Liabilities:					
Deposits	$ 25,679.4	$ 25,682.2	$	$ 24,990.8	$ 691.4
Other short-term borrowings	3.9	3.9			3.9
Long-term debt	736.0	788.9		697.8	91.1

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Note 2. Fair Value Measurements (Continued)

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

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

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

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

Loans and leases Loans and leases, excluding covered loans, are not recorded at fair value on a recurring basis. Nonrecurring fair value adjustments are periodically recorded on impaired loans that are measured for impairment based on the fair value of collateral. Due to the lack of activity in the secondary market for the types of loans in the Company s portfolio, a model-based approach is used for determining the fair value of loans for purposes of the disclosures in the previous table. The fair value of loans is estimated by discounting future cash flows using discount rates that incorporate the Company s assumptions for current market yields, credit risk and liquidity premiums. Loan cash flow projections are based on contractual loan terms adjusted for the impact of current interest rate levels on borrower behavior, including prepayments. Loan prepayment assumptions are based on industry standards for the type of loans being valued. Projected cash flows are discounted using yield curves based on current market conditions. Yield curves are constructed by product type using the Bank s loan pricing model for like-quality credits. The discount rates used in the Company s model represent the rates the Bank would offer to current borrowers for like-quality credits. These rates could be different from what other financial institutions could offer for these loans.

Covered loans The fair value of covered loans is based on estimates of future loan cash flows and appropriate discount rates, which incorporate the Company s assumptions about market funding cost and liquidity premium. The estimates of future loan cash flows are determined using the Company s assumptions concerning the amount and timing of principal and interest payments, prepayments and credit losses.

FDIC indemnification asset The fair value of the FDIC indemnification asset is estimated by discounting estimated future cash flows based on estimated current market rates.

Investment in FHLB and FRB stock Investments in Federal Home Loan Bank of San Francisco (FHLB) and Federal Reserve Bank (FRB) stock are recorded at cost. Ownership of these securities is restricted to member banks and the securities do not have a readily determinable market value. Purchases and sales of these securities are at par value with the issuer. The fair value of investments in FHLB and FRB stock is equal to the carrying amount.

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

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

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Note 2. Fair Value Measurements (Continued)

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

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

Note 3. Securities

At March 31, 2014, the Company had total securities of $8.65 billion, comprised of securities available-for-sale at fair value of $5.39 billion, securities held-to-maturity at amortized cost of $3.20 billion and trading securities at fair value of $61.6 million. At December 31, 2013, the Company had total securities of $9.28 billion, comprised of securities available-for-sale at fair value of $6.24 billion, securities held-to-maturity at amortized cost of $2.96 billion and trading securities at fair value of $82.4 million.

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

(in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
March 31, 2014								
Securities available-for-sale:								
U.S. Treasury	$	185,275	$	38	$		$	185,313
Federal agency - Debt		756,828		648		(3,787)		753,689
Federal agency - MBS		124,698		3,119		(2,204)		125,613
CMOs - Federal agency		3,715,837		28,420		(54,311)		3,689,946
CMOs - Non-agency		36,773		351		(776)		36,348
State and municipal		398,960		8,055		(118)		406,897
Other debt securities		174,907		3,501				178,408
Total debt securities		5,393,278		44,132		(61,196)		5,376,214
Equity securities and mutual funds		787		9,753				10,540
Total securities available-for-sale	$	5,394,065	$	53,885	$	(61,196)	$	5,386,754
Securities held-to-maturity (1):								
Federal agency - Debt	$	265,071	$	372	$	(3,342)	$	262,101
Federal agency - MBS		450,334		3,601		(7,335)		446,600
CMOs - Federal agency		1,867,099		4,867		(32,845)		1,839,121
State and municipal		522,104		6,234		(9,287)		519,051
Other debt securities		98,389		55		(249)		98,195
Total securities held-to-maturity	$	3,202,997	$	15,129	$	(53,058)	$	3,165,068

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

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
Securities available-for-sale:				
U.S. Treasury	$ 35,312	$ 23	$	$ 35,335
Federal agency - Debt	1,417,509	938	(7,911)	1,410,536
Federal agency - MBS	156,399	3,615	(2,788)	157,226
CMOs - Federal agency	4,037,348	30,721	(70,771)	3,997,298
CMOs - Non-agency	38,383	127	(1,048)	37,462
State and municipal	407,312	8,806	(123)	415,995
Other debt securities	175,091	3,731		178,822
Total debt securities	6,267,354	47,961	(82,641)	6,232,674
Equity securities and mutual funds	337	8,106		8,443
Total securities available-for-sale	$ 6,267,691	$ 56,067	$ (82,641)	$ 6,241,117
Securities held-to-maturity (1):				
Federal agency - Debt	$ 178,413	$ 133	$ (5,122)	$ 173,424
Federal agency - MBS	445,360	1,005	(11,930)	434,435
CMOs - Federal agency	1,781,219	1,839	(40,621)	1,742,437
State and municipal	454,155	421	(19,014)	435,562
Other debt securities	98,696		(619)	98,077
Total securities held-to-maturity	$ 2,957,843	$ 3,398	$ (77,306)	$ 2,883,935

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

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Note 3. Securities (Continued)

Proceeds from sales of securities available-for-sale were $377.1 million for the three months ended March 31, 2014 and $1.03 billion for the three months ended March 31, 2013. There were no sales of securities held-to-maturity during the three months ended March 31, 2014 and 2013. The following table provides the gross realized gains and losses on the sales and calls of securities (including trading securities):

	For the three months ended March 31,	
(in thousands)	**2014**	**2013**
Gross realized gains	$ 2,602	$ 1,046
Gross realized losses	(480)	
Net realized gains	$ 2,122	$ 1,046

Interest income on securities for the three months ended March 31, 2014 and 2013 is comprised of: (i) taxable interest income of $36.0 million and $39.8 million, respectively (ii) nontaxable interest income of $5.5 million and $4.4 million, respectively, and (iii) dividend income of $9 thousand and $19 thousand, respectively.

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Note 3. Securities (Continued)

The following table provides the expected remaining maturities of debt securities included in the securities portfolio at March 31, 2014, except for maturities of mortgage-backed securities which are allocated according to the average life of expected cash flows. Average expected maturities will differ from contractual maturities because of the amortizing nature of the loan collateral and prepayment behavior of borrowers.

(in thousands)	One year or less	Over 1 year through 5 years	Over 5 years through 10 years	Over 10 years	Total
Securities available-for-sale:					
U.S. Treasury	$ 172,234	$ 13,079	$	$	$ 185,313
Federal agency - Debt	215,510	499,012	39,167		753,689
Federal agency - MBS		107,729	17,884		125,613
CMOs - Federal agency	98,666	3,244,429	346,851		3,689,946
CMOs - Non-agency	2,500	33,848			36,348
State and municipal	78,801	324,777		3,319	406,897
Other	29,345	149,063			178,408
Total debt securities available-for-sale	$ 597,056	$ 4,371,937	$ 403,902	$ 3,319	$ 5,376,214
Amortized cost	$ 594,486	$ 4,385,520	$ 409,872	$ 3,400	$ 5,393,278
Securities held-to-maturity:					
Federal agency - Debt	$	$ 11,082	$ 57,513	$ 196,476	$ 265,071
Federal agency - MBS		54,660	377,913	17,761	450,334
CMOs - Federal agency		648,349	1,218,750		1,867,099
State and municipal	1,434	35,041	357,339	128,290	522,104
Other		98,389			98,389
Total debt securities held-to-maturity at amortized cost	$ 1,434	$ 847,521	$ 2,011,515	$ 342,527	$ 3,202,997

Impairment Assessment

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

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

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Note 3. Securities (Continued)

Securities Deemed to be Other-Than-Temporarily Impaired

There were no impairment losses recorded in earnings on securities available-for-sale for the three months ended March 31, 2014 and 2013. There was no non-credit-related other-than-temporary impairment recognized in accumulated other comprehensive income or loss (AOCI) on securities available-for-sale at March 31, 2014. The Company recognized $0.5 million of non-credit-related other-than-temporary impairment in AOCI on non-agency CMO securities classified as available-for-sale at March 31, 2013. No impairment losses were recognized in earnings or AOCI for securities held-to-maturity during the three months ended March 31, 2014 and 2013.

The following table summarizes the changes in cumulative credit-related other-than-temporary impairment recognized in earnings for debt securities for the three months ended March 31, 2014 and 2013. Credit-related other-than-temporary impairment that was recognized in earnings is reflected as an Initial credit-related impairment if the period reported is the first time the security had a credit impairment. A credit-related other-than-temporary impairment is reflected as a Subsequent credit-related impairment if the period reported is not the first time the security had a credit impairment. Cumulative impairment is reduced for securities with previously recognized credit-related impairment that were sold or redeemed during the period. Cumulative impairment is further adjusted for other changes in expected cash flows.

	For the three months ended March 31,	
(in thousands)	**2014**	**2013**
Balance, beginning of period	$ 4,549	$ 16,486
Reduction for securities sold or redeemed		(12,761)
Reduction for increase in expected cash flows on securities for which OTTI was previously recognized		(49)
Balance, end of period	$ 4,549	$ 3,676

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 March 31, 2014 and December 31, 2013. The table also includes investment securities that had both a credit-related impairment recognized in earnings and a non-credit-related impairment recognized in AOCI.

	Less than 12 months		12 months or greater		Total	
(in thousands)	**Fair Value**	**Estimated Unrealized Loss**	**Fair Value**	**Estimated Unrealized Loss**	**Fair Value**	**Estimated Unrealized Loss**
March 31, 2014						
Securities available-for-sale:						
Federal agency - Debt	$ 573,402	$ 3,787	$	$	$ 573,402	$ 3,787
Federal agency - MBS	17,921	76	42,974	2,128	60,895	2,204
CMOs - Federal agency	1,234,220	22,311	801,649	32,000	2,035,869	54,311
CMOs - Non-agency	7,751	160	8,506	616	16,257	776
State and municipal	7,096	18	4,249	100	11,345	118
Total securities available-for-sale	$ 1,840,390	$ 26,352	$ 857,378	$ 34,844	$ 2,697,768	$ 61,196

Securities held-to-maturity:												
Federal agency - Debt	$	166,775	$	3,342	$		$		$	166,775	$	3,342
Federal agency - MBS		199,582		5,623		24,992		1,712		224,574		7,335
CMOs - Federal agency		1,238,387		25,387		112,092		7,458		1,350,479		32,845
State and municipal		175,726		5,547		52,479		3,740		228,205		9,287
Other debt securities		80,571		249						80,571		249
Total securities held-to-maturity	$	1,861,041	$	40,148	$	189,563	$	12,910	$	2,050,604	$	53,058

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Note 3. Securities (Continued)

(in thousands)	Less than 12 months Fair Value	Less than 12 months Estimated Unrealized Loss	12 months or greater Fair Value	12 months or greater Estimated Unrealized Loss	Total Fair Value	Total Estimated Unrealized Loss
December 31, 2013						
Securities available-for-sale:						
Federal agency - Debt	$ 1,026,142	$ 7,911	$	$	$ 1,026,142	$ 7,911
Federal agency - MBS	17,962	85	43,492	2,703	61,454	2,788