

CITY NATIONAL CORP
Form 10-Q
May 09, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2005

or

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
(State or other jurisdiction of
incorporation or organization)

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

City National Center
400 North Roxbury Drive, Beverly Hills, California
(Address of principal executive offices)

90210
(Zip Code)

Registrant's telephone number, including area code (310) 888-6000

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 is an accelerated filer (as defined in Rule 12b-2 of the Act).

YES NO

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Number of shares of common stock outstanding at April 30, 2005 **49,045,584**

PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITY NATIONAL CORPORATION
CONSOLIDATED BALANCE SHEET

| | March 31, 2005 (Unaudited) | December 31, 2004 | March 31, 2004 (Unaudited) |
|---|----------------------------------|----------------------|----------------------------------|
| Dollars in thousands, except per share amounts | | | |
| Assets | | | |
| Cash and due from banks | \$ 386,999 | \$ 240,492 | \$ 472,541 |
| Federal funds sold | 190,000 | 427,000 | 519,000 |
| Due from banks interest-bearing | 36,982 | 236,362 | 34,570 |
| Securities available-for-sale cost \$4,085,560; \$4,114,620 and \$3,563,508 at March 31, 2005, December 31, 2004 and March 31, 2004, respectively | 4,018,969 | 4,114,298 | 3,612,173 |
| Trading account securities | 37,490 | 75,878 | 39,549 |
| Loans | 8,585,463 | 8,494,187 | 7,967,639 |
| Less allowance for credit losses | 147,607 | 148,568 | 154,498 |
| Net loans | 8,437,856 | 8,345,619 | 7,813,141 |
| Premises and equipment, net | 68,354 | 68,624 | 60,175 |
| Deferred tax asset | 132,143 | 102,196 | 60,049 |
| Goodwill | 251,494 | 253,740 | 253,737 |
| Intangibles | 39,622 | 41,063 | 46,120 |
| Bank-owned life insurance | 65,809 | 64,969 | 63,510 |
| Affordable housing investments | 60,898 | 62,864 | 65,831 |
| Other assets | 188,272 | 193,693 | 186,085 |
| Customers acceptance liability | 3,150 | 4,715 | 4,617 |
| Total assets | \$ 13,918,038 | \$ 14,231,513 | \$ 13,231,098 |
| Liabilities | | | |
| Demand deposits | \$ 6,069,061 | \$ 6,026,428 | \$ 5,525,627 |
| Interest checking deposits | 828,510 | 889,512 | 833,003 |
| Money market deposits | 3,585,904 | 3,760,142 | 3,535,809 |
| Savings deposits | 194,928 | 196,366 | 196,153 |
| Time deposits under \$100,000 | 182,277 | 181,618 | 195,053 |
| Time deposits \$100,000 and over | 901,944 | 932,849 | 849,032 |
| Total deposits | 11,762,624 | 11,986,915 | 11,134,677 |
| Federal funds purchased and securities sold under repurchase agreements | 155,645 | 204,654 | 88,063 |
| Other short-term borrowings | 125 | 125 | 50,125 |
| Subordinated debt | 280,068 | 288,934 | 300,758 |
| Long-term debt | 224,829 | 230,416 | 239,804 |
| Reserve for unfunded credit commitments | 12,944 | 11,751 | 10,574 |
| Other liabilities | 132,945 | 129,106 | 135,370 |
| Acceptances outstanding | 3,150 | 4,715 | 4,617 |
| Total liabilities | 12,572,330 | 12,856,616 | 11,963,988 |
| Minority interest in consolidated subsidiaries | 25,525 | 26,362 | 27,180 |
| Commitments and contingencies | | | |
| Shareholders Equity | | | |
| Preferred Stock authorized 5,000,000; none outstanding | | | |
| Common Stock-par value \$1.00; authorized 75,000,000; Issued 50,712,226; 50,589,408 and 50,583,124 shares at March 31, 2005, December 31, 2004 and March 31, 2004, respectively | 50,712 | 50,589 | 50,583 |
| Additional paid-in capital | 419,505 | 410,216 | 409,235 |
| Accumulated other comprehensive income | (43,288) | (1,352) | 32,237 |
| Retained earnings | 995,688 | 957,987 | 849,859 |
| Deferred equity compensation | (19,893) | (12,262) | (14,343) |
| Treasury shares, at cost 1,334,703; 1,042,629; and 1,754,657 shares at March 31, 2005, December 31, 2004 and March 31, 2004, respectively | (82,541) | (56,643) | (87,641) |
| Total shareholders equity | 1,320,183 | 1,348,535 | 1,239,930 |
| Total liabilities and shareholders equity | \$ 13,918,038 | \$ 14,231,513 | \$ 13,231,098 |

See accompanying Notes to the Unaudited Consolidated Financial Statements.

CITY NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | For the three months ended | |
|---|---|------------------|
| | March 31, | |
| | 2005 | 2004 |
| | In thousands, except per share amounts | |
| Interest Income | | |
| Loans | \$ 125,257 | \$ 105,986 |
| Securities available-for-sale | 41,750 | 37,201 |
| Trading account securities | 217 | 38 |
| Federal funds sold and securities purchased under resale agreements | 211 | 432 |
| Due from banks interest-bearing | 215 | 140 |
| Total interest income | 167,650 | 143,797 |
| Interest Expense | | |
| Deposits | 15,243 | 9,752 |
| Federal funds purchased and securities sold under repurchase agreements | 1,456 | 244 |
| Other short-term borrowings | 4 | 173 |
| Subordinated debt | 2,208 | 1,217 |
| Other long-term debt | 2,313 | 1,439 |
| Total interest expense | 21,224 | 12,825 |
| Net interest income | 146,426 | 130,972 |
| Provision for credit losses | | |
| Net interest income after provision for credit losses | 146,426 | 130,972 |
| Noninterest Income | | |
| Trust and investment fees | 19,437 | 15,588 |
| Brokerage and mutual fund fees | 9,868 | 8,726 |
| Cash management and deposit transaction charges | 9,010 | 11,098 |
| International services | 4,888 | 5,126 |
| Bank-owned life insurance | 864 | 831 |
| Gain on sale of loans and assets | 23 | |
| Gain on sale of securities | 255 | 629 |
| Other | 6,013 | 4,572 |
| Total noninterest income | 50,358 | 46,570 |
| Noninterest Expense | | |
| Salaries and employee benefits | 66,632 | 59,676 |
| Net occupancy of premises | 7,616 | 7,308 |
| Professional fees | 8,714 | 6,106 |
| Information services | 5,166 | 4,522 |
| Depreciation | 3,615 | 3,228 |
| Marketing and advertising | 3,574 | 3,507 |
| Office services | 2,489 | 2,419 |
| Amortization of intangibles | 1,441 | 1,759 |
| Equipment | 549 | 765 |
| Other operating | 6,708 | 5,241 |
| Total noninterest expense | 106,504 | 94,531 |
| Minority interest in net income of consolidated subsidiaries | 1,811 | 1,600 |
| Income before income taxes | 88,469 | 81,411 |
| Income taxes | 33,008 | 30,513 |
| Net income | \$ 55,461 | \$ 50,898 |
| Net income per share, basic | \$ 1.13 | \$ 1.04 |
| Net income per share, diluted | \$ 1.09 | \$ 1.00 |
| Shares used to compute income per share, basic | 49,162 | 48,732 |
| Shares used to compute income per share, diluted | 51,030 | 50,679 |
| Dividends per share | \$ 0.36 | \$ 0.32 |

See accompanying Notes to the Unaudited Consolidated Financial Statements.

CITY NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | For the three months ended | |
|---|-----------------------------------|--------------|
| | March 31, | |
| | 2005 | 2004 |
| | Dollars in thousands | |
| Cash Flows From Operating Activities | | |
| Net income | \$ 55,461 | \$ 50,898 |
| Adjustments to net income: | | |
| Provision for credit losses | | |
| Amortization of restricted stock grants | 882 | 508 |
| Amortization of intangibles | 1,441 | 1,759 |
| Depreciation and software amortization | 4,569 | 4,193 |
| Tax benefit from exercise of stock options | 2,138 | 1,673 |
| Deferred income tax benefit | (29,947) | (8,171) |
| Gain on sales of loans and assets | (23) | |
| Gain on sales and write-down of securities | (255) | (629) |
| Net (increase) decrease in other assets and other liabilities | (1,317) | 6,800 |
| Net decrease in trading securities | 38,388 | 51,986 |
| Other, net | 23,999 | 3,668 |
| Net cash provided by operating activities | 95,336 | 112,685 |
| Cash Flows From Investing Activities | | |
| Purchase of securities | (105,046) | (455,043) |
| Sales of securities available-for-sale | | 46,799 |
| Maturities and paydowns of securities | 133,610 | 193,811 |
| Loan originations net of principal collections | (91,276) | (84,897) |
| Purchase of premises and equipment | (4,299) | (1,649) |
| Net cash used by investing activities | (67,011) | (300,979) |
| Cash Flows From Financing Activities | | |
| Net (decrease) increase in deposits | (224,291) | 197,614 |
| Net decrease in federal funds purchased and securities sold under repurchase agreements | (49,009) | (23,650) |
| Net decrease in short-term borrowings, net of transfers from long-term debt | | (15,010) |
| Proceeds from exercise of stock options | 7,229 | 7,273 |
| Stock repurchases | (34,367) | (43,382) |
| Cash dividends paid | (17,760) | (15,630) |
| Net cash (used) provided by financing activities | (318,198) | 107,215 |
| Net decrease in cash and cash equivalents | (289,873) | (81,079) |
| Cash and cash equivalents at beginning of period | 903,854 | 1,107,190 |
| Cash and cash equivalents at end of period | \$ 613,981 | \$ 1,026,111 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 27,886 | \$ 20,170 |
| Income taxes | 2,439 | |
| Non-cash investing activities: | | |
| Transfers from loans to foreclosed assets | \$ | \$ |
| Transfers from long-term debt to short-term borrowings | | |

See accompanying Notes to the Unaudited Consolidated Financial Statements.

CITY NATIONAL CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

| | Shares issued | Common stock | Additional paid-in capital | Accumulated other comprehensive income | Retained Earnings | Deferred Compensation | Treasury stock | Total shareholders equity |
|---|----------------------|-----------------|----------------------------------|---|----------------------|--------------------------|-------------------|---------------------------------|
| | Dollars in thousands | | | | | | | |
| Balance, December 31, 2003 | 50,459,716 | \$ 50,460 | \$ 401,233 | \$ 12,903 | \$ 814,591 | \$ (6,699) | \$ (53,232) | \$ 1,219,256 |
| Net income | | | | | 50,898 | | | 50,898 |
| Other comprehensive income, net of tax | | | | | | | | |
| Net unrealized gain on securities available-for-sale, net of reclassification adjustment of \$0.3 million of net losses included in net income | | | | 19,493 | | | | 19,493 |
| Net unrealized loss on cash flow hedges, net of reclassification of \$1.3 million of net gains included in net income | | | | (159) | | | | (159) |
| Total other comprehensive income | | | | 19,334 | | | | 70,232 |
| Issuance of shares for stock options | | | (1,700) | | | | 8,973 | 7,273 |
| Restricted stock grants | 123,408 | 123 | 8,029 | | | (8,152) | | |
| Amortization of deferred compensation for stock grants | | | | | | 508 | | 508 |
| Tax benefit from stock options | | | 1,673 | | | | | 1,673 |
| Cash dividends | | | | | (15,630) | | | (15,630) |
| Repurchased shares, net | | | | | | | (43,382) | (43,382) |
| Balance, March 31, 2004 | 50,583,124 | \$ 50,583 | \$ 409,235 | \$ 32,237 | \$ 849,859 | \$ (14,343) | \$ (87,641) | \$ 1,239,930 |
| Balance, December 31, 2004 | 50,589,408 | \$ 50,589 | \$ 410,216 | \$ (1,352) | \$ 957,987 | \$ (12,262) | \$ (56,643) | \$ 1,348,535 |
| Net income | | | | | 55,461 | | | 55,461 |
| Other comprehensive income, net of tax | | | | | | | | |
| Net unrealized loss on securities available-for-sale, no reclassification adjustment in net income | | | | (38,404) | | | | (38,404) |
| Net unrealized loss on cash flow hedges, net of reclassification of \$0.7 million of net gains included in net income | | | | (3,532) | | | | (3,532) |
| Total other comprehensive income | | | | (41,936) | | | | 13,525 |
| Issuance of shares for stock options | | | (1,240) | | | | 8,469 | 7,229 |
| Restricted stock grants | 122,818 | 123 | 8,391 | | | (8,514) | | |
| Amortization of deferred compensation for stock grants | | | | | | 883 | | 883 |
| Tax benefit from stock options | | | 2,138 | | | | | 2,138 |
| Cash dividends | | | | | (17,760) | | | (17,760) |
| Repurchased shares, net | | | | | | | (34,367) | (34,367) |
| Balance, March 31, 2005 | 50,712,226 | \$ 50,712 | \$ 419,505 | \$ (43,288) | \$ 995,688 | \$ (19,893) | \$ (82,541) | \$ 1,320,183 |

See accompanying Notes to Consolidated Financial Statements.

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CITY NATIONAL CORPORATION
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. City National Corporation (the Corporation) is the holding company for City National Bank (the Bank). Because the Bank comprises substantially all of the business of the Corporation, references to the Company mean the Corporation and the Bank together.
2. The results of operations reflect any interim adjustments, all of which are of a normal recurring nature and which, in the opinion of management, are necessary for a fair presentation of the results for the interim period presented. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004. The results for the 2005 interim period are not necessarily indicative of the results expected for the full year.
3. Trading account securities are stated at fair value. Investments not classified as trading securities are classified as securities available-for-sale and recorded at fair value. Unrealized holding gains or losses for securities available-for-sale, net of taxes are excluded from net income and are reported as other comprehensive income, which is shown as a separate component of shareholders' equity.
4. Certain prior periods' data have been reclassified to conform to current period presentation.
5. The following table provides information about purchases by the Company of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended March 31, 2005.

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------|---|--|---|--|
| 01/01/05 - 01/31/05 | 187,300 | \$ 69.54 | 187,300 | 822,200 |
| 02/01/05 - 02/28/05 | 1,480 (3) | 41.56 | | 822,200 |
| 02/01/05 - 02/28/05 | 86,100 | 69.47 | 86,100 | 736,100 |
| 03/01/05 - 03/31/05 | 222,100 | 69.16 | 222,100 | 514,000 |
| | 496,980 | 69.28 | 495,500 (1) | 514,000 (2) |

- (1) We repurchased an aggregate of 495,500 shares of our common stock pursuant to the repurchase program that we publicly announced on May 24, 2004 (the Program).
- (2) Remaining shares available for repurchase pursuant to the program approved on May 24, 2004 by our Board of Directors. Unless terminated earlier by resolution of our Board of Directors, the program will expire when we have repurchased all shares authorized for repurchase thereunder.
- (3) During the first quarter of 2005, 1,480 shares were received in payment of the exercise price of stock options.

Basic earnings per share is based on the weighted average shares of common stock outstanding less unvested restricted shares and units. Diluted earnings per share gives effect to all dilutive potential common shares which consists of stock options and restricted shares and units that were outstanding during the period. At March 31, 2005, 2,290 stock options were antidilutive compared with 481,758 antidilutive stock options at March 31, 2004.

6. The Company applies APB Opinion No. 25 Accounting for Stock Issued to Employees in accounting for stock option plans and, accordingly, no compensation cost has been recognized for its plans in the financial statements. As a practice, the Corporation's stock option grants are such that the exercise price equals the current market price of the common stock. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123 Share-Based Payment using the Black Scholes option-pricing model, the Company's proforma net income would have been reduced to the proforma amounts indicated below:

| | For the three months ended | |
|---|-------------------------------------|-------------|
| | March 31, | |
| | 2005 | 2004 |
| | Dollars in thousands, | |
| | except for per share amounts | |
| Net Income, as reported | \$ 55,461 | \$ 50,898 |
| Total stock-based employee compensation expense under the fair-value method for all awards net of tax | (1,533) | (1,240) |
| Proforma Net Income | 53,928 | 50,175 |
| Shares basic, as reported | 49,162 | 48,732 |
| Shares diluted, as reported | 51,030 | 50,679 |
| Net Income per share, basic, as reported | 1.13 | 1.04 |
| Proforma Net Income per share, basic | 1.10 | 1.03 |
| Net Income per share, diluted, as reported | 1.09 | 1.00 |
| Proforma Net Income per share, diluted | 1.06 | 0.99 |
| Percentage reduction in net income per share diluted | 3.05 % | 1.00 % |

Beginning in the second quarter of 2003, stock-based compensation performance awards included restricted stock grants with fewer stock options. The Company recorded \$882,000 in expense for restricted stock awards in the first quarter of 2005 compared with \$508,000 for the first quarter of 2004.

The Black Scholes option-pricing model requires assumptions on the expected life of the options based upon the pattern of exercise of options granted by the Corporation in the past; volatility based on changes in the price of the Corporation's common stock during the past 10 years, measured monthly; the dividend yield and the risk-free investment rate. Actual dividend payments will depend upon a number of factors, including future financial results, and may differ substantially from the assumption. The risk-free investment rate is based on the yield on 10-year U.S. Treasury Notes on the grant date.

The actual value, if any, which a grantee may realize will depend upon the difference between the option exercise price and the market price of the Corporation's common stock on the date of exercise.

On April 14, 2005 the Securities and Exchange Commission announced a new rule delaying the implementation of Statement of Financial Accounting Standards No. 123R, Share-Based Payment. The Commission's new rule allows companies to implement Statement No. 123R at the start of their next fiscal year which begins after June 15, 2005. The Company will comply with the requirements of Statement No. 123R as of January 1, 2006.

7. On April 1, 2003, the Corporation acquired Convergent Capital Management LLC, a privately-held Chicago-based company, and substantially all of its asset management holdings, including its majority ownership interests in eight asset management firms and minority interests in two additional firms. Combined, these 10 firms managed assets of approximately \$11.8 billion as of March 31, 2005. The purchase price was \$49.0 million, comprised of cash and the assumption of approximately \$7.5 million

of debt. The acquisition resulted in \$25.8 million in customer contract intangibles, which are being amortized over 20 years, and \$21.5 million in goodwill.

8. As we previously reported, the California Franchise Tax Board has taken the position that certain real estate investment trust (REIT) and registered investment company (RIC) tax deductions shall be disallowed under California law. As of March 31, 2005, the Company continues to reflect a net \$36.4 million state tax receivable for the years 2000, 2001 and 2002 after giving effect to reserves for loss contingencies on the refund claims, or an equivalent of \$23.7 million after giving effect to Federal tax benefits. Although management intends to aggressively pursue its claims for REIT and RIC refunds for the 2000 to 2002 tax years, no outcome can be predicted with certainty and an adverse outcome on the refund claims could result in a loss of all or a portion of the net \$23.7 million state tax receivable.

9. The Corporation has a profit sharing retirement plan covering eligible employees. Contributions are made annually and are allocated to participants based on their salaries. For the first quarter of 2005, the company recorded profit sharing contributions expense of \$4.7 million, compared to \$3.9 million for the first quarter of 2004.

As previously reported, during 2002 a Supplemental Executive Retirement Plan (SERP) was created for one of the officers of the Company. At March 31, 2005, there was a \$2.2 million unfunded pension liability and a \$0.8 million intangible asset related to this plan. The total expense for the first quarter of 2005 and 2004 was \$0.2 million and \$0.3 million, respectively.

10. As previously disclosed, City National Bank entered into a consent agreement with the Office of the Comptroller of the Currency on February 23, 2005 in connection with compliance with the Bank Secrecy Act and the USA Patriot Act, and paid a monetary assessment of \$750,000 in the first quarter.

CITY NATIONAL CORPORATION
FINANCIAL HIGHLIGHTS
(Unaudited)

| | At or for the three months ended | | | Percentage change | |
|---|----------------------------------|----------------------|-------------------|--|-------------------|
| | March 31, 2005 | December 31, 2004 | March 31, 2004 | March 31, 2005 from December 31, 2004 | March 31, 2004 |
| For The Quarter | | | | | |
| Net income | \$ 55,461 | \$ 49,746 | \$ 50,898 | 11 % | 9 % |
| Net income per common share, diluted | 1.09 | 0.97 | 1.00 | 12 | 9 |
| Dividends, per common share | 0.36 | 0.32 | 0.32 | 13 | 13 |
| At Quarter End | | | | | |
| Assets | \$ 13,918,038 | \$ 14,231,513 | \$ 13,231,098 | (2) | 5 |
| Loans | 8,585,463 | 8,494,187 | 7,967,639 | 1 | 8 |
| Securities | 4,018,969 | 4,114,298 | 3,612,173 | (2) | 11 |
| Deposits | 11,762,624 | 11,986,915 | 11,134,677 | (2) | 6 |
| Shareholders' equity | 1,320,183 | 1,348,535 | 1,239,930 | (2) | 6 |
| Book value per share | 26.97 | 27.39 | 25.54 | (2) | 6 |
| Average Balances | | | | | |
| Assets | \$ 13,873,392 | \$ 14,120,530 | \$ 12,617,328 | (2) | 10 |
| Loans | 8,585,201 | 8,356,557 | 7,886,333 | 3 | 9 |
| Securities | 4,115,383 | 4,012,183 | 3,462,547 | 3 | 19 |
| Deposits | 11,572,401 | 11,938,672 | 10,533,471 | (3) | 10 |
| Shareholders' equity | 1,352,472 | 1,330,614 | 1,222,017 | 2 | 11 |
| Selected Ratios | | | | | |
| Return on average assets | 1.62 | % 1.40 | % 1.62 | % 16 | 0 |
| Return on average shareholders' equity | 16.63 | 14.87 | 16.75 | 12 | (1) |
| Corporation's tier 1 leverage | 8.12 | 7.83 | 7.60 | 4 | 7 |
| Corporation's tier 1 risk-based capital | 11.69 | 11.51 | 10.65 | 2 | 10 |
| Corporation's total risk-based capital | 15.27 | 15.11 | 14.41 | 1 | 6 |
| Average shareholders' equity to average assets | 9.75 | 9.42 | 9.69 | 3 | 1 |
| Dividend payout ratio, per share | 32.02 | 31.81 | 30.71 | 1 | 4 |
| Net interest margin | 4.75 | 4.54 | 4.66 | 5 | 2 |
| Efficiency ratio(1) | 54.10 | 56.69 | 53.39 | (5) | 1 |
| Asset Quality Ratios | | | | | |
| Nonaccrual loans to total loans | 0.35 | % 0.41 | % 0.54 | % (15) | (35) |
| Nonaccrual loans and ORE to total loans and ORE | 0.35 | 0.41 | 0.54 | (15) | (35) |
| Allowance for loan losses to total loans | 1.72 | 1.75 | 1.94 | (2) | (11) |
| Allowance for loan losses to nonaccrual loans | 493.37 | 428.92 | 361.54 | 15 | 36 |
| Net charge-offs to average loans annualized | 0.01 | | (0.05) | N/M | (120) |

(1) The efficiency ratio is defined as noninterest expense, excluding ORE expense, divided by total revenue (net interest income on a tax-equivalent basis and noninterest income).

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

See Cautionary Statement for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995, below relating to forward-looking statements included in this report.

RESULTS OF OPERATIONS

Critical Accounting Policies

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 four policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These policies relate to the accounting for securities, allowance for credit losses, derivatives and hedging activities, and stock-based performance plans. The Company, with the concurrence of the Audit Committee and the Compensation, Nominating and Governance Committee, has reviewed and approved these critical accounting policies, which are further described in Management's Discussion and Analysis and Note 1 (Summary of Significant Accounting Policies) to the Consolidated Financial Statements in the Company's 2004 Form 10-K as of December 31, 2004.

Overview

The Corporation recorded net income of \$55.5 million, or \$1.09 per share, for the first quarter of 2005 compared with \$50.9 million, or \$1.00 per share, for the first quarter of 2004 and \$49.7 million, or \$0.97 per share, for the fourth quarter of 2004.

Highlights

- Revenue for the first quarter of 2005 rose 11 percent over the same period a year ago and 5 percent over the fourth quarter of 2004.
- The net interest margin of 4.75 percent at March 31, 2005 represents a 21-basis-point increase over the December 31, 2004 net interest margin of 4.54 percent, and a 9-basis-point increase over the March 31, 2004 net interest margin of 4.66 percent.
- No provision for credit losses was recorded for the seventh consecutive quarter, a result of continued strong credit quality and an adequate current level of the allowance for loan losses and the reserve for off-balance sheet credit commitments. Nonaccrual loans as of March 31, 2005 were \$29.9 million, down 30 percent from March 31, 2004 and 14 percent from December 31, 2004.
- Average deposits and average core deposits were both up 10 percent for the first quarter of 2005 from the first quarter a year ago due to continued bank-wide growth. Average core deposits represented 92 percent of the total average deposit base for the first quarter of 2005.
- First-quarter average loans increased 9 percent from the same period last year to \$8.6 billion.
- Average securities for the first quarter of 2005 were up 19 percent from the same period a year ago as deposit growth outpaced loan growth in 2004.

Outlook

As disclosed in the Company's press release on first-quarter earnings, management continues to expect the growth of earnings per share for 2005 to be approximately 11 to 14 percent higher than earnings per share for 2004.

Revenues

Revenue (net interest income plus noninterest income) for the first quarter of 2005 increased 11 percent to \$196.8 million compared with \$177.5 million for the first quarter of 2004 due to higher net interest income and wealth management fees. Revenue was up 5 percent from the fourth quarter of 2004.

Net Interest Income

Fully taxable-equivalent net interest income reached \$149.9 million in the first quarter of 2005, up 12 percent from \$134.3 million for the same period last year. Compared to the fourth quarter of 2004, fully taxable-equivalent net interest income grew 1 percent from \$148.8 million. The net interest margin was 9 basis points higher than the first quarter of 2004 and 21 basis points higher than the fourth quarter of 2004. Both higher yields and higher average interest-earning assets contributed to the increases in net interest income and the net interest margin from the same period last year. Higher yields are responsible for the increases from the fourth quarter of 2004.

| | For the three months ended March 31, 2005 | | | For the three months ended December 31, 2004 | | | | | |
|---|---|----------|------|--|------|----|-------------|------|---|
| | 2005 | | 2004 | % Change | 2004 | | % Change | | |
| | Dollars in millions | | | | | | | | |
| Average Loans | \$ | 8,585.2 | \$ | 7,886.3 | 9 | \$ | 8,356.6 | 3 | |
| Average Securities | | 4,115.4 | | 3,462.5 | 19 | | 4,012.2 | 3 | |
| Average Earning Assets | | 12,798.5 | | 11,601.9 | 10 | | 13,039.6 | (2) | |
| Average Deposits | | 11,572.4 | | 10,533.5 | 10 | | 11,938.7 | (3) | |
| Average Core Deposits | | 10,628.3 | | 9,621.2 | 10 | | 11,074.4 | (4) | |
| Fully Taxable-Equivalent Net Interest Income | | 149.9 | | 134.3 | 12 | | 148.8 | 1 | |
| Net Interest Margin | | 4.75 | % | 4.66 | % | 2 | 4.54 | % | 5 |

Compared with the prior-year first-quarter averages, residential mortgage loans rose 17 percent, real estate construction loans rose 22 percent, commercial real estate mortgage loans rose 4 percent and commercial loans increased 2 percent. Compared with the prior quarter, average loans increased in all categories except installment loans.

Period-end March 31, 2005 loans increased \$91.3 million from December 31, 2004, reflecting growth in commercial lending and most real estate-related loan categories.

Average securities increased 19 percent for the first quarter of 2005 compared with the same period for 2004 primarily due to deposit growth outpacing loan growth. Average securities were 3 percent higher than the fourth quarter of 2004. As of March 31, 2005 the unrealized net loss on securities available-for-sale was \$66.6 million. The average duration of total available-for-sale securities at March 31, 2005 was 3.5 years compared with 3.0 years at December 31, 2004 and 3.1 years at March 31, 2004.

Average deposits during the first quarter of 2005 increased 10 percent over the same period last year and decreased 3 percent from the fourth quarter of 2004. Average core deposits represented 92 percent of the total average deposit base for the first quarter of 2005, compared with 91 percent for the first quarter of 2004 and 93 percent for the fourth quarter of 2004. New clients and higher balances maintained contributed to the year-over-year growth of deposits while the decrease from the 2004 fourth-quarter is

due to the variability of our specialty deposit business, which totaled approximately \$1.8 billion at March 31, 2005.

The Company had \$1.4 billion notional value of plain vanilla interest rate swaps at March 31, 2005, which are part of its long-standing asset-liability management strategy of hedging loans, deposits, and borrowings. The swaps added \$4.8 million to net interest income in the first quarter of 2005, compared with \$8.3 million in the first quarter of 2004 and \$5.9 million in the fourth quarter of 2004. These amounts included \$3.6 million, \$6.0 million, and \$4.4 million, respectively, for interest rate swaps qualifying as fair value hedges. Income from swaps qualifying as cash-flow hedges was \$1.2 million for the first quarter of 2005, compared with \$2.3 million for the first quarter of 2004, and \$1.5 million for the fourth quarter of 2004. Income from existing swaps qualifying as cash-flow hedges of loans expected to be recorded in net interest income within the next 12 months is \$1.7 million.

Interest recovered on nonaccrual and charged-off loans included in net interest income for the first quarter of 2005 was \$0.5 million, compared with \$0.7 million for the first quarter of 2004, and \$0.2 million for the fourth quarter of 2004.

The Bank's prime rate was 5.75 percent as of March 31, 2005, an increase of 175 basis points over March 31, 2004.

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The following table presents the components of net interest income on a fully taxable-equivalent basis for the three months ended March 31, 2005 and 2004. To compare the tax-exempt asset yields to taxable yields, amounts are adjusted to pre-tax equivalents based on the marginal corporate federal tax rate of 35 percent.

Net Interest Income Summary

| | For the three months ended March 31, 2005 | | | For the three months ended March 31, 2004 | | |
|--|--|-----------------------------------|-----------------------------|--|-----------------------------------|-----------------------------|
| | Average Balance Dollars in thousands | Interest income/ expense(2) | Average interest rate | Average Balance | Interest income/ expense(2) | Average interest rate |
| Assets | | | | | | |
| Interest-earning assets | | | | | | |
| Loans | | | | | | |
| Commercial | \$ 3,236,444 | \$ 45,946 | 5.76 % | \$ 3,172,149 | \$ 40,142 | 5.09 % |
| Commercial real estate mortgages | 1,876,720 | 30,415 | 6.57 | 1,807,549 | 28,203 | 6.28 |
| Residential mortgages | 2,285,759 | 31,358 | 5.56 | 1,952,305 | 26,801 | 5.52 |
| Real estate construction | 829,702 | 13,569 | 6.63 | 678,479 | 8,571 | 5.08 |
| Equity lines of credit | 265,417 | 3,550 | 5.42 | 194,184 | 2,011 | 4.17 |
| Installment | 91,159 | 1,513 | 6.73 | 81,667 | 1,432 | 7.05 |
| Total loans(1) | 8,585,201 | 126,351 | 5.97 | 7,886,333 | 107,160 | 5.47 |
| Due from banks interest-bearing | 64,917 | 215 | 1.34 | 78,348 | 140 | 0.72 |
| Federal funds sold and securities purchased under resale agreements | 33,004 | 211 | 2.59 | 174,649 | 432 | 0.99 |
| Securities available-for-sale | 4,077,915 | 44,084 | 4.38 | 3,432,391 | 39,390 | 4.62 |
| Trading account securities | 37,468 | 222 | 2.40 | 30,156 | 39 | 0.52 |
| Total interest-earning assets | 12,798,505 | 171,083 | 5.42 | 11,601,877 | 147,161 | 5.10 |
| Allowance for loan losses | (148,891) | | | (156,086) | | |
| Cash and due from banks | 440,632 | | | 447,220 | | |
| Other non-earning assets | 783,146 | | | 724,317 | | |
| Total assets | \$ 13,873,392 | | | \$ 12,617,328 | | |
| Liabilities and Shareholders' Equity | | | | | | |
| Interest-bearing deposits | | | | | | |
| Interest checking accounts | \$ 858,290 | 182 | 0.09 | \$ 802,578 | 166 | 0.08 |
| Money market accounts | 3,689,866 | 9,093 | 1.00 | 3,421,000 | 5,819 | 0.68 |
| Savings deposits | 205,113 | 122 | 0.24 | 204,741 | 133 | 0.26 |
| Time deposits under \$100,000 | 181,417 | 924 | 2.07 | 197,660 | 711 | 1.45 |
| Time deposits \$100,000 and over | 944,112 | 4,922 | 2.11 | 912,315 | 2,923 | 1.29 |
| Total interest-bearing deposits | 5,878,798 | 15,243 | 1.05 | 5,538,294 | 9,752 | 0.71 |
| Federal funds purchased and securities sold under repurchase agreements | 253,750 | 1,456 | 2.33 | 111,763 | 244 | 0.88 |
| Other borrowings | 519,505 | 4,525 | 3.53 | 578,988 | 2,829 | 1.97 |
| Total interest-bearing liabilities | 6,652,053 | 21,224 | 1.29 | 6,229,045 | 12,825 | 0.83 |
| Noninterest-bearing deposits | 5,693,603 | | | 4,995,177 | | |
| Other liabilities | 175,264 | | | 171,089 | | |
| Shareholders' equity | 1,352,472 | | | 1,222,017 | | |
| Total liabilities and shareholders equity | \$ 13,873,392 | | | \$ 12,617,328 | | |
| Net interest spread | | | 4.13 % | | | 4.27 % |
| Fully taxable-equivalent net interest income | | \$ 149,859 | | | \$ 134,336 | |
| Net interest margin | | | 4.75 % | | | 4.66 % |

(1) Includes average nonaccrual loans of \$31,761 and \$37,115 for 2005 and 2004, respectively.

(2) Loan income includes loan fees of \$5,418 and \$5,553 for 2005 and 2004, respectively.

Net interest income is impacted by the volume (changes in volume multiplied by prior rate), mix (change in rate multiplied by change in volume), and rate (changes in rate multiplied by prior volume) of interest-earning assets and interest-bearing liabilities. The following table shows changes in net interest income on a fully taxable-equivalent basis between the first quarter of 2005 and the first quarter of 2004, as well as between the first quarter of 2004 and the first quarter of 2003.

Changes In Net Interest Income

| | For the three months ended March 31, 2005 vs 2004 | | | For the three months ended March 31, 2004 vs 2003 | | |
|--|--|--------------|-------------------------------|--|------------------|-------------------------------|
| | Increase (decrease) due to | | Net increase (decrease) | Increase (decrease) due to | | Net increase (decrease) |
| | Volume | Rate | | Volume | Rate | |
| | Dollars in thousands | | | | | |
| Interest earned on: | | | | | | |
| Loans | \$ 9,407 | \$ 9,784 | \$ 19,191 | \$ (1,057) | \$ (9,129) | \$ (10,186) |
| Securities available-for-sale | 6,875 | (2,181) | 4,694 | 12,625 | (4,695) | 7,930 |
| Trading account securities | 11 | 172 | 183 | 1 | (14) | (13) |
| Federal funds sold and securities purchased under resale agreements | | | | | | |
| Due from banks interest-bearing | (535) | 314 | (221) | 115 | (94) | 21 |
| | (28) | 103 | 75 | 92 | (1) | 91 |
| Total interest-earning assets | 15,730 | 8,192 | 23,922 | 11,776 | (13,933) | (2,157) |
| Interest paid on: | | | | | | |
| Interest checking deposits | 6 | 10 | 16 | 56 | (227) | (171) |
| Money market deposits | 465 | 2,809 | 3,274 | 1,022 | (2,776) | (1,754) |
| Savings deposits | | (11) | (11) | 9 | (138) | (129) |
| Time deposits | 51 | 2,161 | 2,212 | (590) | (1,078) | (1,668) |
| Borrowings | 395 | 2,513 | 2,908 | (632) | (280) | (912) |
| Total interest-bearing liabilities | 917 | 7,482 | 8,399 | (135) | (4,499) | (4,634) |
| | \$ 14,813 | \$ 710 | \$ 15,523 | \$ 11,911 | \$ (9,434) | \$ 2,477 |

The impact of interest rate swaps, which increases interest income on loans and reduces deposit and borrowing interest expense, is included in rate changes.

Provision for Credit Losses

The Company, for the seventh consecutive quarter, made no provision for credit losses in the first three months of 2005. This was attributable to the continued strong credit quality of its portfolio, low level of net charge-offs, management's ongoing assessment of the credit quality of the portfolio, modest loan growth and an improving economic environment in our market areas. See Allowance for Loan Losses and Reserve for Off-Balance Sheet Credit Commitments.

The Company accounts for the credit risk associated with lending activities through its allowance and provision for loan losses. The provision is the expense recognized in the income statement to adjust the allowance to the level deemed appropriate by management, as determined through application of the Company's allowance methodology procedures. (See Critical Accounting Policies on page A-5 of the Company's Form 10-K for the year ended December 31, 2004.)

The Company has not recorded a provision for loan losses since the second quarter of 2003. This was attributable to the continued strong credit quality of the Company's loan portfolio, modest loan growth, changing economic conditions in 2003 and 2004 and management's ongoing assessment of the credit quality of the loan portfolio. The key indicators of the improving asset quality of the loan portfolio during the period were an improvement in credit risk ratings, a decline in non-performing assets and low levels of

net charge-offs. Total non-performing assets (nonaccrual loans and ORE) decreased from \$42.7 million at March 31, 2004 to \$29.9 million at March 31, 2005. Net loan charge-offs were \$0.9 million for the quarter ended March 31, 2004 compared with net loan recoveries of \$0.2 million for the quarter ended March 31, 2005. In addition, although the Company's residential mortgage portfolio experienced a higher loan growth rate in 2003, 2004 and 2005 (as compared to more modest loan growth in other loan categories), since this loan portfolio has low loss characteristics, the increase did not significantly impact the allowance for loan losses.

In response to the improving credit performance and economic conditions, the Company considered it appropriate not to record a provision for loan losses in the first quarter of 2005. As a result of not recording the provision for loan losses since second quarter of 2003, the Company's net income has been positively impacted. The company expects that the provision for credit losses may increase during 2005 if loan growth continues and if the levels of nonperforming loans and net charge-offs increase.

Noninterest Income

First-quarter 2005 noninterest income was 8 percent higher than the first quarter of 2004 due primarily to higher wealth management income. Noninterest income increased 21 percent over the fourth quarter of 2004, as the prior period included a writedown of certain preferred stock of government-sponsored entities. As a percentage of total revenue, noninterest income was 26 percent for the first quarters of both 2005 and 2004, and 22 percent for the fourth quarter of 2004.

Wealth Management

Trust and investment fees increased 25 percent over the first quarter of 2004 primarily due to higher balances under management or administration. Assets under management at March 31, 2005 increased 14 percent from the same period last year primarily due to new business, strong relative investment performance and higher market values. Increases in market values are reflected in fee income primarily on a trailing-quarter basis.

| | At or for the three months ended March 31, 2005 | | | At or for the three months ended December 31, 2004 | | |
|----------------------------------|--|----------|-------------|--|------|-------------|
| | 2005 | 2004 | % Change | 2004 | 2004 | % Change |
| | Dollars in millions | | | | | |
| Trust and Investment Fee Revenue | \$ 19.4 | \$ 15.6 | 25 | \$ 19.3 | | 1 |
| Brokerage and Mutual Fund Fees | 9.9 | 8.7 | 13 | 9.9 | | 0 |
| Assets Under Management(1) | 16,378.8 | 14,339.3 | 14 | 16,185.2 | | 1 |
| Assets Under Administration(2) | 35,829.2 | 30,532.3 | 17 | 35,092.7 | | 2 |

(1) Excludes \$6,071, \$3,591, and \$4,227 million of assets under management for the CCM minority-owned asset managers as of March 31, 2005, March 31, 2004, and December 31, 2004, respectively.

(2) Includes assets under management.

Other Noninterest Income

Cash management and deposit transaction fees for the first quarter of 2005 decreased 19 percent from the same period last year. Compared with the fourth quarter of 2004, first-quarter 2005 cash management and deposit transaction fees were essentially unchanged. Higher average deposit balances and a higher earnings credit rate contributed to the variance from the first quarter of last year.

International service fees for the first quarter of 2005 fell 5 percent from the prior-year quarter and 10 percent from the fourth quarter of 2004 primarily due to pricing pressures.

Other income for the first quarter of 2005 was 32 percent higher than the first quarter of 2004 and 16 percent higher than the fourth quarter of 2004 primarily due to higher participating mortgage loan fees.

For the first quarter of 2005, the Company recorded \$0.3 million in gains on the sale of assets and securities, compared to \$0.6 million in gains for the first quarter of 2004 and \$7.7 million in losses for the fourth quarter of 2004. As previously disclosed, results for the fourth quarter of 2004 included an \$8.2 million non-cash charge on certain perpetual fixed-rate preferred securities issued by government-sponsored entities.

Noninterest Expense

First-quarter 2005 noninterest expense of \$106.5 million was up 13 percent from \$94.5 million for the first quarter of 2004, but down 1 percent from \$107.5 million from the fourth quarter of 2004. The year-over-year increase was primarily related to higher staffing costs.

Staffing expenses were 12 percent higher in the first quarter of 2005 compared with the first quarter of 2004 due to hiring of new colleagues as well as higher commissions and bonuses. Staffing expenses increased 9 percent over the fourth quarter of 2004 primarily due to higher commissions paid and seasonally higher payroll taxes.

Professional fees for the first quarter of 2005 increased \$2.6 million, or 43 percent, from the first quarter of 2004 for expenses related to compliance with the Sarbanes-Oxley Act, the Bank Secrecy Act, and the USA Patriot Act. Professional fees were down \$2.6 million, or 23 percent, from the fourth quarter of 2004.

As previously disclosed, City National Bank entered into a consent agreement with the Office of the Comptroller of the Currency on February 23, 2005 in connection with compliance with the Bank Secrecy Act and the USA Patriot Act, and paid a monetary assessment of \$750,000 in the first quarter.

For the first quarter of 2005, the efficiency ratio was 54.10 percent compared with 53.39 percent for the first quarter of 2004, and 56.69 percent for the fourth quarter of 2004.

Minority Interest

Minority interest consists of preferred stock dividends on the Bank's real estate investment trust subsidiaries and the minority ownership share of earnings of the Corporation's majority-owned asset management firms.

Income Taxes

The first-quarter 2005 effective tax rate was 37.3 percent, compared with 37.4 percent for all of 2004. The effective tax rates differ from the applicable statutory federal tax rate due to various factors, including state taxes, tax-exempt income including interest on bank-owned life insurance, and affordable housing investments.

The Company's tax returns are being audited by the Internal Revenue Service back to 1998 and by the Franchise Tax Board of the State of California back to 1996. From time to time, there may be differences in opinions with respect to the tax treatment accorded transactions. If it becomes probable that a tax position originally taken to support amounts reported on the financial statements will not be sustained upon a challenge from a tax authority and the tax effect of this difference is reasonably estimable, such amounts will be recognized.

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As we previously reported, the California Franchise Tax Board has taken the position that certain real estate investment trust (REIT) and registered investment company (RIC) tax deductions shall be disallowed under California law. While management continues to believe that the tax benefits realized in previous years were appropriate, the company deemed it prudent to participate in the statutory Voluntary Compliance Initiative Option 2, requiring payment of all California taxes and interest on the disputed 2000-through- 2002 tax years, and permitting the company to claim a refund for these years while avoiding certain potential penalties. The company's strategic and financial positions remain unchanged from the previously reported periods. As of March 31, 2005, the Company continues to reflect a net \$36.4 million state tax receivable for the years 2000, 2001 and 2002 after giving effect to reserves for loss contingencies on the refund claims, or an equivalent of \$23.7 million after giving effect to Federal tax benefits. Although management intends to aggressively pursue its claims for REIT and RIC refunds for the 2000 to 2002 tax years, no outcome can be predicted with certainty and an adverse outcome on the refund claims could result in a loss of all or a portion of the net \$23.7 million state tax receivable.

BALANCE SHEET ANALYSIS

Average assets for the first quarter of 2005 were higher than the first quarter of 2004, primarily due to an increase in average securities and loans. Total assets at March 31, 2005 increased 5 percent to \$13.9 billion from \$13.2 billion at March 31, 2004, and decreased 2 percent from \$14.2 billion at December 31, 2004 due to the runoff of federal funds sold as a result of the seasonal decline in deposits in the first quarter.

Total average interest-earning assets for the first quarter of 2005 were \$12.8 billion, an increase of 10 percent over the \$11.6 billion in total average interest-earning assets for the first quarter of 2004 and were 2 percent lower than the \$13.0 billion in average interest-earning assets for the fourth quarter of 2004.

Securities

Comparative period-end security portfolio balances are presented below:

Securities Available-for-Sale

| | March 31, 2005 | | December 31, 2004 | | March 31, 2004 | |
|------------------------------------|----------------------|--------------|----------------------|--------------|-------------------|--------------|
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| | Dollars in thousands | | | | | |
| U.S. Government and federal agency | \$ 797,664 | \$ 783,642 | \$ 797,539 | \$ 793,195 | \$ 349,978 | \$ 354,096 |
| Mortgage-backed | 2,795,635 | 2,736,553 | 2,837,146 | 2,825,590 | 2,758,964 | 2,787,267 |
| State and Municipal | 304,088 | 308,354 | 292,244 | 302,073 | 266,329 | 279,075 |
| Total debt securities | 3,897,387 | 3,828,549 | 3,926,929 | 3,920,858 | 3,375,271 | 3,420,438 |
| Marketable equity securities | 188,173 | 190,420 | 187,691 | 193,440 | 188,237 | 191,735 |
| Total securities | \$ 4,085,560 | \$ 4,018,969 | \$ 4,114,620 | \$ 4,114,298 | \$ 3,563,508 | \$ 3,612,173 |

At March 31, 2005, securities available-for-sale totaled \$4.0 billion, an increase of \$0.4 billion compared with holdings at March 31, 2004 but a decrease of \$0.1 billion from December 31, 2004. At March 31, 2005, the portfolio had an unrealized net loss of \$66.6 million compared with an unrealized net loss of \$0.3 million at December 31, 2004 and an unrealized gain of \$48.7 million at March 31, 2004. The average duration of total available-for-sale securities at March 31, 2005 was 3.5 years. The 3.5 duration compares with 3.0 at December 31, 2004 and 3.1 at March 31, 2004. Duration provides a measure of fair

value sensitivity to changes in interest rates. This is within the investment guidelines set by the Company's Asset/Liability Committee and the interest-rate risk guidelines set by the Board of Directors. See "Asset/Liability Management" for a discussion of the Company's interest rate position.

The following table provides the contractual remaining maturities and yields (taxable-equivalent basis) of debt securities in the securities portfolio as of March 31, 2005. Contractual maturities of mortgage-backed securities are substantially longer than their expected maturities due to scheduled and unscheduled principal payments. To compare the tax-exempt asset yields to taxable yields, amounts are adjusted to pre-tax equivalents based on the marginal corporate federal tax rate of 35 percent.

Debt Securities Available-for-Sale

| | One year or less | | Over 1 year thru 5 years | | Over 5 years thru 10 years | | Over 10 years | | Total | Yield |
|------------------------------------|----------------------|-----------|--------------------------|-----------|----------------------------|-----------|---------------|-----------|--------------|-----------|
| | Amount | Yield (%) | Amount | Yield (%) | Amount | Yield (%) | Amount | Yield (%) | Amount | Yield (%) |
| | Dollars in thousands | | | | | | | | | |
| U.S. Government and federal agency | \$ 82,999 | 2.18 | \$ 692,394 | 3.13 | \$ 8,249 | 3.31 | \$ | | \$ 783,642 | 3.03 |
| Mortgage-backed | 213,495 | 4.20 | 10,904 | 4.09 | 333,278 | 4.12 | 2,178,876 | 4.44 | 2,736,553 | 4.38 |
| State and Municipal | 9,498 | 6.98 | 110,738 | 6.64 | 121,728 | 5.88 | 66,390 | 6.18 | 308,354 | 6.25 |
| Total debt securities | \$ 305,992 | 3.74 | \$ 814,036 | 3.62 | \$ 463,255 | 4.57 | \$ 2,245,266 | 4.49 | \$ 3,828,549 | 4.24 |
| Amortized cost | \$ 309,713 | | \$ 824,403 | | \$ 468,691 | | \$ 2,294,580 | | \$ 3,897,387 | |

Dividend income included in interest income on securities in the Unaudited Consolidated Statement of Income for the first quarter of 2005 and 2004 was \$2.1 million and \$1.9 million, respectively.

Loan Portfolio

A comparative period-end loan table is presented below:

Loans

| | March 31, 2005 | December 31, 2004 | March 31, 2004 |
|----------------------------------|----------------------|-------------------|----------------|
| | Dollars in thousands | | |
| Commercial | \$ 3,205,776 | \$ 3,158,369 | \$ 3,163,312 |
| Commercial real estate mortgages | 1,919,788 | 1,892,823 | 1,807,591 |
| Residential mortgages | 2,323,879 | 2,248,742 | 1,977,952 |
| Real estate construction | 772,000 | 847,364 | 741,637 |
| Equity lines of credit | 274,735 | 255,194 | 197,269 |
| Installment | 89,285 | 91,695 | 79,878 |
| Total loans, gross | 8,585,463 | 8,494,187 | 7,967,639 |
| Less allowance for credit losses | 147,607 | 148,568 | 154,498 |
| Total loans, net | \$ 8,437,856 | \$ 8,345,619 | \$ 7,813,141 |

Total gross loans at March 31, 2005 were 8 percent and 1 percent higher than total loans at March 31, 2004 and December 31, 2004, respectively.

The following table presents information concerning nonaccrual loans, ORE, and restructured loans. Bank policy requires that a loan be placed on nonaccrual status if (1) either principal or interest payments are 90 days past due, unless the loan is both well secured and in process of collection, (2) full collection of interest or principal becomes uncertain, regardless of the time period involved or (3) regulators' ratings of credits suggest that the loan be placed on nonaccrual.

Nonaccrual Loans, ORE and Restructured Loans

| | March 31, 2005 | December 31, 2004 | March 31, 2004 |
|---|----------------------|----------------------|-------------------|
| | Dollars in thousands | | |
| Nonaccrual loans: | | | |
| Commercial | \$ 25,117 | \$ 30,334 | \$ 37,457 |
| Commercial real estate mortgages | 1,945 | 2,255 | 4,811 |
| Residential mortgages | 1,990 | 94 | 11 |
| Real estate construction | | 790 | |
| Equity lines of credit | 212 | 380 | 25 |
| Installment | 654 | 785 | 429 |
| Total | 29,918 | 34,638 | 42,733 |
| ORE | | | |
| Total nonaccrual loans and ORE | \$ 29,918 | \$ 34,638 | \$ 42,733 |
| Total nonaccrual loans as a percentage of total loans | 0.35 | % | 0.54 |
| Total nonaccrual loans and ORE as a percentage of total loans and ORE | 0.35 | | 0.54 |
| Allowance for loan losses to total loans | 1.72 | 1.75 | 1.94 |
| Allowance for loan losses to nonaccrual loans | 493.37 | 428.92 | 361.54 |
| Loans past due 90 days or more on accrual status: | | | |
| Commercial | \$ 807 | \$ 142 | \$ 5,057 |
| Real estate | | | |
| Installment | | | |
| Total | \$ 807 | \$ 142 | \$ 5,057 |

At March 31, 2005, there were \$26.7 million of impaired loans included in nonaccrual loans, with an allowance allocation of \$5.6 million. On a comparable basis, at December 31, 2004, there were \$33.0 million of impaired loans, which had an allowance allocation of \$9.0 million while at March 31, 2004, impaired loans were \$41.9 million with an allowance allocation of \$5.9 million. The assessment for impairment occurs when and while such loans are on nonaccrual, or 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 such 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. Additionally, some impaired loans with commitments of less than \$500,000 are aggregated for the purpose of measuring impairment using historical loss factors as a means of measurement.

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 is recognized by creating or adjusting an existing allocation of the allowance for loan losses. The Company's policy is to record cash receipts on impaired loans first as reductions in principal and then as interest income.

The following table summarizes the changes in nonaccrual loans for the three months ending March 31, 2005 and 2004.

Changes in Nonaccrual Loans

| | For the three months ended | |
|--|----------------------------|-----------|
| | March 31, 2005 | 2004 |
| | Dollars in thousands | |
| Balance, beginning of period | \$ 34,638 | \$ 42,273 |
| Loans placed on nonaccrual | 8,459 | 17,414 |
| Charge-offs | (2,826) | (3,595) |
| Loans returned to accrual status | (1,236) | (5,975) |
| Repayments (including interest applied to principal) | (9,117) | (7,384) |
| Balance, end of period | \$ 29,918 | \$ 42,733 |

In addition to loans disclosed above as nonaccrual or restructured, management has also identified \$2.4 million of credits to 6 borrowers 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 loans on nonaccrual status at March 31, 2005. This amount was determined based on analysis of information known to management about the borrowers' financial condition and current economic conditions.

Management's classification of credits as nonaccrual, restructured, or problems does not necessarily indicate that the principal is uncollectable in whole or in part.

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

At March 31, 2005, the allowance for loan losses was \$147.6 million or 1.72 percent of outstanding loans and the reserve for off-balance sheet credit commitments was \$12.9 million. The process used in the determination of the adequacy of the reserve for off-balance sheet credit commitments is consistent with the process for the allowance for loan losses.

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The table on the following page summarizes key statistics relating to the allowance for loan losses and reserve for off-balance sheet commitments.

| | At or for the three months ended March 31, 2005 | | | % Change | At or for the three months ended December 31, 2004 | | | | | |
|--|--|------|--------|-------------|--|----------|-------------|---|-----|---|
| | 2004 | | | | 2004 | | % Change | | | |
| | Dollars in millions | | | | | | | | | |
| Provision For Credit Losses | \$ | \$ | | N/M | \$ | | N/M | | | |
| Net Loan Recoveries/(Charge-Offs) | 0.2 | (0.9 |) | 125 | | | N/M | | | |
| Annualized Percentage of Recoveries/ (Charge-offs) to Average Loans | 0.01 | % | (0.05 |)% | 120 | | N/M | | | |
| Nonperforming Assets | \$ 29.9 | \$ | 42.7 | (30 |) | \$ 34.6 | (14 |) | | |
| Percentage of Nonaccrual Loans and ORE to Total Loans and ORE | 0.35 | % | 0.54 | % | (35 |) | 0.41 | % | (15 |) |
| Allowance for Loan Losses | \$ 147.6 | \$ | 154.5 | (4 |) | \$ 148.6 | (1 |) | | |
| Reserve for Off-Balance Sheet Credit Commitments | \$ 12.9 | \$ | 10.6 | 22 | | \$ 11.8 | 10 | | | |
| Percentage of Allowance for Loan Losses to Outstanding Loans | 1.72 | % | 1.94 | % | (11 |) | 1.75 | % | (2 |) |
| Percentage of Allowance for Loan Losses to Nonaccrual Loans | 493.37 | | 361.54 | 36 | | 428.92 | 15 | | | |

The tables below summarize the changes in the allowance for loan losses and the reserve for off-balance sheet credit commitments for the three months ended March 31, 2005 and 2004.

Changes in Allowance for Loan Losses

| | For the three months ended March 31, | | |
|--|---|--------------|----|
| | 2005 | 2004 | |
| | Dollars in thousands | | |
| Loans outstanding | \$ 8,585,463 | \$ 7,967,639 | |
| Average amount of loans outstanding | \$ 8,585,201 | \$ 7,886,333 | |
| Balance of allowance for loan losses, beginning of period | \$ 148,568 | \$ 156,015 | |
| Loans charged off: | | | |
| Commercial | (1,572 |) (3,256 |) |
| Real estate and other | (1,934 |) (1,093 |) |
| Total loans charged off | (3,506 |) (4,349 |) |
| Less recoveries of loans previously charged off: | | | |
| Commercial | 3,689 | 3,324 | |
| Real estate and other | 49 | 111 | |
| Total recoveries | 3,738 | 3,435 | |
| Net loans recoveries/(charge-offs) | 232 | (914 |) |
| Provision for credit losses | (1,193 |) (603 |) |
| Balance, end of period | \$ 147,607 | \$ 154,498 | |
| Total net charge-offs to average loans (annualized) | 0.01 | % (0.05 |)% |
| Ratio of allowance for loan losses to total period end loans | 1.72 | % 1.94 | % |

Changes in Reserve for Off-Balance Sheet Credit Commitments

| | For the three months ended | |
|--------------------------------|----------------------------|-----------|
| | March 31, 2005 | 2004 |
| | Dollars in thousands | |
| Balance at beginning of period | \$ 11,751 | \$ 9,971 |
| Provision for credit losses | 1,193 | 603 |
| Balance at end of period | \$ 12,944 | \$ 10,574 |

Other Assets

Other assets included the following:

Other Assets

| | March 31, 2005 | December 31, 2004 | March 31, 2004 |
|-----------------------------------|----------------------|----------------------|-------------------|
| | Dollars in thousands | | |
| Interest rate swap mark-to-market | \$ 9,836 | \$ 24,389 | \$ 54,188 |
| Accrued interest receivable | 54,652 | 53,169 | 44,600 |
| Income tax refund | 36,454 | 36,409 | 16,133 |
| Other | 87,330 | 79,726 | 71,164 |
| Total other assets | \$ 188,272 | \$ 193,693 | \$ 186,085 |

See *Net Interest Income* for a discussion of interest rate swaps that result in the swap mark-to-market asset of \$9.8 million. See *Income Taxes* for a discussion of income tax refund receivable of \$36.4 million.

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 unfunded commitments to extend credit, letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the consolidated balance sheet. 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 evaluates each client's creditworthiness on a case-by-case basis.

The Company had outstanding and unfunded loan commitments aggregating \$3,979.1 million at March 31, 2005 compared with \$3,818.7 million at December 31, 2004 and \$3,526.8 million at March 31, 2004. In addition, the Company had \$425.4 million outstanding in letters of credit of which \$400.1 million relate to standby letters of credit at March 31, 2005. At December 31, 2004, the Company had \$432.1 million in outstanding letters of credit of which \$406.7 million relate to standby letters of credit. Substantially all of the Company's loan commitments are on a variable rate basis and are comprised of real estate and commercial loan commitments. There have been no material changes to the information provided in the Company's off balance sheet arrangements since the last reporting period.

Deposits

Deposits totaled \$11.8 billion at March 31, 2005, an increase of 6 percent compared with \$11.1 billion at March 31, 2004, and a decrease of 2 percent from the \$12.0 billion at December 31, 2004. Bank-wide

growth contributed to the year-over-year increase while the decrease from December 31, 2004 was due to the variability of our specialty deposit business.

Demand deposits accounted for 52 percent of total deposits at March 31, 2005. Core deposits, which continued to provide substantial benefits to the Bank's cost of funds, were 92 percent of total deposits at March 31, 2005. See Net Interest Income.

Borrowings

Borrowings have declined by \$18.1 million from March 31, 2004 and \$63.5 million from December 31, 2004 to \$ 660.7 million at March 31, 2005 as the Company paid off Federal Home Loan Bank advances and reduced overnight borrowings.

CAPITAL ADEQUACY REQUIREMENT

The following table presents the regulatory standards for well capitalized institutions and the capital ratios for the Corporation and the Bank at March 31, 2005, December 31, 2004, and March 31, 2004.

| | Regulatory Well Capitalized Standards | March 31, 2005 | December 31, 2004 | March 31, 2004 |
|----------------------------------|--|---------------------------|------------------------------|---------------------------|
| City National Corporation | | | | |
| Tier 1 leverage | N/A | 8.12 % | 7.83 % | 7.60 % |
| Tier 1 risk-based capital | 6.00 % | 11.69 | 11.51 | 10.65 |
| Total risk-based capital | 10.00 | 15.27 | 15.11 | 14.41 |
| City National Bank | | | | |
| Tier 1 leverage | 5.00 | 8.73 | 8.38 | 8.41 |
| Tier 1 risk-based capital | 6.00 | 12.52 | 12.28 | 11.73 |
| Total risk-based capital | 10.00 | 16.10 | 15.87 | 15.48 |

Tier 1 capital ratios include the impact of \$26.0 million of preferred stock issued by real estate investment trust subsidiaries of the Bank, which is included in minority interest in consolidated subsidiaries.

Shareholders' equity to assets as of March 31, 2005 was 9.5 percent compared to 9.4 percent as of March 31, 2004 and 9.5 percent as of December 31, 2004.

The accumulated other comprehensive loss at March 31, 2005 was \$43.3 million compared with income of \$32.2 million at March 31, 2004 and a loss of \$1.4 million at December 31, 2004.

On May 4, 2005, the Corporation declared a regular quarterly cash dividend on common stock at a rate of \$0.36 per share to shareholders of record on May 18, 2005 payable on May 31, 2005.

LIQUIDITY MANAGEMENT

The Company continues to manage its liquidity through the combination of core deposits, federal funds purchased, repurchase agreements, collateralized borrowing lines at the Federal Reserve Bank and the Federal Home Loan Bank of San Francisco and a portfolio of securities available-for-sale. Liquidity is also provided by maturing securities and loans.

Average core deposits and shareholders' equity comprised 86 percent of total funding of average assets in both first quarters of 2005 and 2004. This allows the Company to limit its use of more costly alternative funding sources. See Net Interest Income.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**ASSET/LIABILITY MANAGEMENT**

The principal objective of asset/liability management is to maximize net interest income subject to margin volatility and liquidity constraints. Margin volatility results when the rate reset (or repricing) characteristics of assets are materially different from those of the Company's liabilities. Liquidity risk results primarily from the mismatching of asset and liability cash flows. Management chooses asset/liability strategies that promote stable earnings and reliable funding. Interest rate risk and funding positions are kept within limits established by the Board of Directors to ensure that risk taking is managed within prudent interest rate and liquidity guidelines.

A quantitative and qualitative discussion about market risk is included on pages A-16 to A-22 of the Corporation's Form 10-K for the year ended December 31, 2004.

Net Interest Simulation: During the first quarter of 2005, the Company maintained an asset sensitive interest rate position. Based on the balance sheet at March 31, 2005, the Company's net interest income simulation model indicates that net interest income would be impacted moderately by changes in interest rates. Assuming a static balance sheet, a gradual 100 basis point decline in interest rates over a twelve-month horizon would result in a decrease in projected net interest income of approximately 1.5 percent. The 1.5 percent at-risk amount is lower than recent historical results, which were 2.4 percent and 2.9 percent at December 31, 2004 and March 31, 2004, respectively. A gradual 100 basis point increase in interest rates over the next 12-month period would result in an increase in projected net interest income of approximately 0.9 percent. This is also less than the December 31, 2004 and March 31, 2004 results, which were 1.6 percent and 2.1 percent, respectively. Exposure remains within Board guidelines.

Present Value of Equity: The model indicates that the Present Value of Equity (PVE) is somewhat vulnerable to a sudden and substantial increase in interest rates. As of March 31, 2005, a 200 basis point increase in interest rates results in a 6.9 percent decline in PVE. This compares to a 6.4 percent decline and a 4.1 percent decline at December 31, 2004 and March 31, 2004, respectively. Exposure remains within Board guidelines.

The following table presents the notional amount and fair value of the Company's interest rate swap agreements according to the specific asset or liability hedged:

| | March 31, 2005 | | | December 31, 2004 | | | March 31, 2004 | | |
|--|-----------------|------------|----------|-------------------|------------|----------|-----------------|------------|----------|
| | Notional Amount | Fair Value | Duration | Notional Amount | Fair Value | Duration | Notional Amount | Fair Value | Duration |
| Dollars in millions | | | | | | | | | |
| Fair Value Receive | | | | | | | | | |
| Fixed Interest Rate Swap Hedges | | | | | | | | | |
| Certificates of deposit | \$ 15.0 | \$ 0.2 | 0.9 | \$ 50.0 | \$ 0.5 | 0.5 | \$ 75.0 | \$ 2.2 | 0.8 |
| Long-term and subordinated debt | 490.9 | 11.0 | 5.1 | 490.9 | 25.9 | 5.3 | 490.9 | 45.1 | 6.0 |
| Total fair value hedge swaps | 505.9 | 11.1 | 5.0 | 540.9 | 26.4 | 4.9 | 565.9 | 47.2 | 5.3 |
| Cash Flow Hedge Receive | | | | | | | | | |
| Fixed Interest Rate Swaps | | | | | | | | | |
| US Dollar LIBOR based loans | 750.0 | (8.0) | 1.2 | 725.0 | (2.0) | 1.3 | 500.0 | 7.0 | 0.8 |
| Prime based loans | 100.0 | (0.1) | 2.6 | | | | | | |
| Total cash flow hedge swaps | 850.0 | (8.1) | 1.4 | 725.0 | (2.0) | 1.3 | 500.0 | 7.0 | 0.8 |
| Fair Value and Cash Flow Hedge | | | | | | | | | |
| Interest Rate Swaps | \$ 1,355.9 | \$ 3.0 (1) | 2.7 | \$ 1,265.9 | \$ 24.4 | 2.8 | \$ 1,065.9 | \$ 54.2 | 3.2 |

(1) Net Fair Value is the sum of the mark-to-market asset on swaps of \$9.8 million and the mark-to-market liability on swaps of \$6.8 million.

Credit exposure represents the cost to replace, on a present value basis and at current market rates, the net positive value of all contracts for City National Corporation and each subsidiary with each

counterparty that were outstanding at the end of the period, taking into consideration legal right of offset. The Company's swap agreements require collateral to mitigate the amount of credit risk if certain market value thresholds are exceeded. At March 31, 2005 City National Bank had credit exposure of \$8.0 million, and had taken delivery of securities with positive market value of \$6.9 million to cover margin requirements for this exposure. City National Corporation had delivered securities with a market value of \$6.0 million as margin for swaps with a negative market value of about \$5.0 million.

At March 31, 2005, the Company's outstanding foreign exchange contracts for both those purchased as well as sold totaled \$69.9 million all with maturities less than 1 year. Total outstanding foreign exchange contracts for both those purchased as well as sold at December 31, 2004 were \$63.6 million all with maturities less than 1 year. The Company enters into foreign exchange contracts with its clients and counterparty banks primarily for the purpose of offsetting or hedging for clients' transaction and economic exposures arising out of commercial transactions. The Company's policies also permit limited proprietary currency positioning. The Company actively manages its foreign exchange exposures within prescribed risk limits and controls.

ITEM 4. CONTROL AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under SEC rules, the Company is required to maintain disclosure controls and procedures designed to ensure that information required by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. As part of the Company's system of disclosure controls and procedures, we have created a disclosure committee, which consists of certain members of the Company's senior management. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934 is accumulated and communicated to management, including the chief executive officer, chief financial officer and other members of the Disclosure Committee, as appropriate to allow timely decisions regarding required disclosure.

The Company has carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. The Company's management, including the Company's Disclosure Committee and its chief executive officer and chief financial officer, supervised and participated in the evaluation. Based on the evaluation, the chief executive officer and the chief financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting identified in connection with the Company's evaluation of its internal control over financial reporting as of December 31, 2004, that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**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 that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of our management, and on information currently available to our management. Forward-looking statements include the information concerning our possible or assumed future results of operations, business and earnings outlook and statements preceded by, followed by, or that include the words will, believes, expects, anticipates, intends, plans, estimates, or similar expressions.

Our management believes these forward-looking statements are reasonable. However, you should not place undue reliance on the forward-looking statements, since they are based on current expectations. Actual results may differ materially from those currently expected or anticipated.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions. Our future results and shareholder values may differ materially from those expressed in these forward-looking statements. Many of the factors described below that will determine these results and values are beyond our ability to control or predict. For those statements, we claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995.

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 as of the date the statements are made or to update earnings guidance including the factors that influence earnings.

A number of factors, some of which are beyond the Corporation's ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. These factors which include (1) the unknown economic impact of state, county, and county budget issues, (2) earthquake or other natural disasters impacting the condition of real estate collateral or business operations, and (3) the effect of acquisitions and integration of acquired businesses could have the following consequences, any of which could negatively impact our business.

- Loan delinquencies could increase;
- Problem assets and foreclosures could increase;
- Demand for our products and services could decline; and
- Collateral for loans made by us, especially real estate, could decline in value, in turn reducing clients' borrowing power, and reducing the value of assets and collateral associated with our existing loans.

Changes in interest rates affect our profitability. We derive our income mainly from the difference or spread between the interest earned on loans, securities, and other interest-earning assets, and interest paid on deposits, borrowings, and other interest-bearing liabilities. In general, the wider the spread, the more we earn. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities fluctuates. This causes changes in our spread and affects our net interest income. In addition, interest rates affect how much money we lend.

Significant changes in the provision or applications of laws or regulations affecting our business, the impact of changes in regulatory, judicial, or legislative tax treatment of business transactions, and the costs to address Sarbanes-Oxley 404 and Bank Secrecy Act regulatory compliance principles including Anti-Money Laundering, USA Patriot Act, Know Your Client, and OFAC requirements could materially affect our business. The banking industry is subject to extensive federal and state regulations, and significant new laws or changes in, or repeals of, existing laws may cause results to differ materially. Also, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects our credit

conditions, primarily through open market operations in U.S. government securities, the discount rate for member bank borrowing, and bank reserve requirements. A material change in these conditions would affect our results. Parts of our business are also subject to federal and state securities laws and regulations. Significant changes in these laws and regulations would also affect our business.

We face strong competition from financial service companies and other companies that offer banking services which can negatively impact our business. Increased competition in our market may result in reduced loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the banking services that we offer in our service area. These competitors include national, regional, and community banks. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks, and other financial intermediaries. Legislation passed will make it easier for other types of financial institutions to compete with us.

Our results would be adversely affected if we suffered higher than expected losses on our loans. We assume risk from the possibility that we will suffer losses because borrowers, guarantors, and related parties fail to perform under the terms of their loans. We try to minimize this risk by adopting and implementing what we believe are effective underwriting and credit policies and procedures, including how we establish and review the allowance for credit losses. We assess the likelihood of nonperformance, track loan performance, and diversify our credit portfolio. Those policies and procedures may still not prevent unexpected losses that could adversely affect our results.

PART II.

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 March 31, 2005 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act is incorporated by reference from that portion of Part I, Item 1 of the report under Note 5.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Corporation's Annual Shareholders Meeting was held on Wednesday, May 4, 2005, in Beverly Hills, California, at which the shareholders were asked to vote on the following matters:

1. Election of nominees to serve on the Corporation's Board of Directors.

Votes regarding the election of three Class III directors to serve for a term of three years and until their successors are duly elected and qualified are as follows:

| | For | Withheld |
|------------------|------------|-----------------|
| Bram Goldsmith | 46,719,920 | 835,018 |
| Richard L. Bloch | 46,969,210 | 585,728 |
| Robert H. Tuttle | 47,498,570 | 56,368 |
| Kenneth Ziffren | 47,005,458 | 549,480 |

Additional directors, whose terms of office as directors continued after the meeting, are as follows:

Class I Directors

George H. Benter Jr.
 Kenneth L. Coleman
 Peter M. Thomas
 Andrea L. Van de Kamp

Class II Directors

Russell Goldsmith
 Michael L. Meyer
 Ronald L. Olson

2. Ratification of the selection of KPMG LLP as the Corporation's independent auditors for the fiscal year ending December 31, 2005

| For | Against | Withheld |
|------------|----------------|-----------------|
| 46,762,736 | 736,065 | 56,137 |

ITEM 6. EXHIBITS

- No.**
- 10.6 City National Corporation 2005 Compensatory Agreement with CEO and Named Executive Officers was filed in current report on Form 8-K dated March 11, 2005, and is hereby incorporated by reference.
 - 31.1 Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
 - 31.2 Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
 - 32.0 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

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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.

DATE:

May 9, 2005

CITY NATIONAL CORPORATION

(Registrant)

/s/ CHRISTOPHER J. CAREY

CHRISTOPHER J. CAREY

Executive Vice President and

Chief Financial Officer

(Authorized Officer and

Principal Financial Officer)

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