

City National Grows Into L.A.'s Largest Independent

By **KATE BERRY**
Staff Reporter

CITY National Corp. has had no shortage of suitors over the years. The Beverly Hills-based parent of City National Bank is an attractive target. It has a widely coveted roster of wealthy clients, a niche market serving Hollywood's elite, and it's grown rapidly in the past decade.

Yet while almost every major bank in California has been gobbled up in a mega-merger – Security Pacific National Bank, First Interstate Bank, Union Bank of California and Home Savings of America, to name a few – City National is still standing on its own.

Indeed, City National has done its own gobbling, albeit in smaller bites. It has made 11 acquisitions since 1995, when Vice Chairman and Chief Executive Russell Goldsmith took over from his father, Bram, who remains chairman.

City National is now the largest independent bank in Los Angeles, where it has been doing business for half a century – no small feat in a town where careers can be marked by days, rather than decades.

City National has managed to survive, analysts say, by concentrating in its early years on several niche industries, notably entertainment and real estate, and by having a family management team with a significant stake in the business and no intention of selling – at least for now.

It's no secret that U.S. Bancorp openly pined to buy City National several years ago and even bought a five percent stake in an effort to prod a purchase. But it and other would-be suitors went away empty-handed. U.S. Bancorp now owns less than half of one percent of City National's stock.

"It would cause a feeding frenzy among larger banks if City National were to become available," said Brock Vandervliet, an analyst with Lehman Brothers. "I don't think it's something that management has

really any intention of doing."

Goldsmith, 53, won't even comment on the concept of a sale.

The Goldsmith family owns 17 percent of the company's stock, and the management team as a whole owns more than 19 percent, according to the most recent proxy filing with the Securities and Exchange Commission. Bram Goldsmith was an early advocate of granting stock options to executives, which may have helped the company stay independent. Executives who are also shareholders and owners, the thinking goes, will work harder to retain control of the firm.

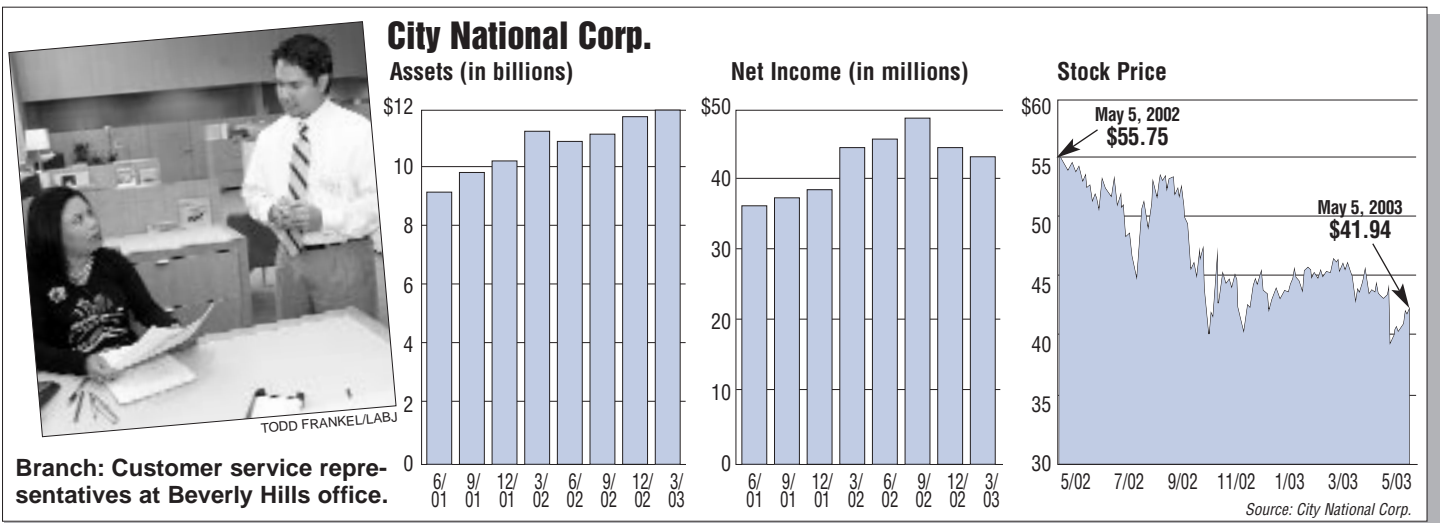
Building a bigger bank

The bank was founded in 1954 to serve the real estate and entertainment industries. Alfred Hart, a director at Columbia Pictures, was joined by a group of investors that included Ben Maltz, a grandfather of Russell Goldsmith. The bank immediately became known in entertainment circles through Hart's relationships with Frank Sinatra and Danny Kaye, among others.

The Goldsmith family, while involved in the bank since its inception, didn't take a management role until the early 1970s, when Bram Goldsmith bought out the ailing Hart's stake for about \$3.6 million. Bram Goldsmith became chief executive in 1975, but up until that point had been an investor mostly in real estate. Russell Goldsmith was on the board for 17 years while his dad ran the company, but he also went his own way, to law school and then as an entertainment industry executive before becoming CEO in 1995.

Not only has City National thrived in cutthroat Hollywood, but the bank has changed dramatically over the past decade under the leadership of the younger Goldsmith, an entertainment lawyer and former chief executive at Republic Pictures.

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For Goldsmith, All Roads Lead Back to City National

RUSSELL Goldsmith, vice chairman and chief executive of City National Corp., just smiles when asked to name names of clients associated with the “bank of the stars.” Loose lips aren’t how Beverly Hills-based City National carved out a niche of catering to major players in the entertainment industry over the past 50 years. A graduate of Harvard Law School, he cut his teeth in the entertainment industry, becoming chief operating officer of Lorimar Inc. and later chief executive of Republic Pictures, which merged with Spellman Entertainment Group in 1994. Though Goldsmith spent 17 years as a director of City National during his father’s tenure, he is quick to point out that he was never groomed for a job at the bank. Since 1995, when Goldsmith took the reins from his father, Bram Goldsmith, assets have risen to \$12 billion from less than \$3 billion.

– Kate Berry

Question: City National built its reputation as Hollywood’s bank. What is your market share in this niche?

Answer: It’s fair to say that we have more entertainment law firms and talent agencies and business managers, and above-the-line talent and studio executives than any other bank. I think when it comes to the entertainment industry, we are the clear leader and anybody else would be a distant second.

Q: Describe your view of the economy.

A: While we’re in a growing economy, it has been a teeter-totter. There’s very slow growth, then a little more rapid growth, then a little slow growth, then a little more rapid growth. And that teeter-totter comes amid legitimate concerns that people have had in the past few months about terrorism and anticipating going into Iraq. A lot of people went to the sidelines. You’ve got an economy that is growing at a very slow rate, underperforming its potential, shedding jobs – clearly we’ve lost over 2 million jobs in the last two years. Happily, Southern California’s economy has performed rather well compared to the rest of the country.

Q: When you became a director of City National, you were just 28 years old. What was it like at a company your father was running?

A: The fact that my family had been involved with the bank from its inception made it a more logical step. The bank was a bit smaller, maybe \$750 million in assets, so it was a local community bank, to a degree, a business bank and a private bank. I was able to bring candor and the perspective of somebody younger and in touch with the entertainment industry.



Russell Goldsmith

Title: Vice Chairman and Chief Executive

Company: City National Corp.

Born: 1950, Chicago

Education: Harvard College, Harvard Law School

Career Turning Point: Becoming chief executive of City National Bank in 1995 after being an entertainment lawyer and head of Republic Pictures.

Most Admired Person: His father, Bram Goldsmith

Personal: Married, three children

Hobbies: Spending time with family, golf, skiing, boating.

Q: How exposed was City National to telecom and media investments?

A: We made some loans in telecommunications and media. Some of them performed very well and some of them didn’t. The good news is that we have very few loans outstanding at this point relative to our \$8 billion loan portfolio. The ones that were challenging, we’re working through them.

Q: How big an issue is credit quality?

A: The bank continues to perform well. After seven consecutive years of double-digit growth in net income, the softness of the economy has led to more challenges on the credit side. And uncertainty in the economy contributed to a lessening of loan demand. Running a company for the long term, you have to know when to lessen your expectations about growth in light of the real world, and that’s what we’re doing. We still anticipate another year of record net income.

Q: In 1999, you called Global Crossing “one of the great success stories.” Looking back, would you change that?

A: It’s clear in hindsight that an enormous number of smart people overestimated demand for telecommunications capacity. So you look at that big picture, whether it’s Sprint or AT&T or Global Crossing or WorldCom, a lot of factors were at play to cause what had been a great success story in 1999 to become quite the opposite.

Q: Do you still have a business relationship with Gary Winnick?

A: I’m not really allowed to comment on individuals.

Q: As a CEO, can you talk about this period where business practices are under scrutiny? How does corporate America get confidence back?

A: First, you have to keep it in perspective. For every Adelphia,

there's got to be hundreds of public companies and thousands of private ones that are run with great integrity. We have a lot of hard-working, effective entrepreneurs in small and mid-sized private companies and in very successful public companies. The system has to aggressively pursue anybody who has broken the law. To some degree that's happening, and to some degree there's some question as to whether that's happening. That is an important part of the process to restore people's faith.

Q: How often is City National approached with an offer to buy the company? Would you consider selling?

A: I'm not going to answer that, but nice try. We have enjoyed great success as an independent company and we run this company on the belief that, as an independent company headquartered in Los Angeles, we can continue to build shareholder value.

Q: Did you know growing up that you would take over from your father?

A: Never. When I was growing up my father was in the real estate business. He was a director of the bank and my grandfather was a director before. My father came into the bank as CEO when I was in law school, so it was never an issue. I see my father most every day, his office is across the hall. I get to see him in a sort of normal, spontaneous way.

Q: You had a stint at Lorimar Inc. as chief operating officer. How did you go from practicing law to running an entertainment company?

A: In some ways it was a natural progression from what I'd been

doing with my partners running a law firm. At Lorimar, there were three of us charged with managing the company with 400 employees and a number of people in production. I was dealing with business issues in entertainment and personnel issues and there was the chance and the need to grow. When you're a senior executive at an entertainment company you inevitably play some role in the creative process.

Q: You had a brief stint as vice chairman of the San Diego Padres. How long have you loved baseball?

A: I was 8 years old when the Brooklyn Dodgers moved to Los Angeles and it was the perfect time in my life to be captured by the excitement and thrill of Major League Baseball. I became a major baseball fan. The Padres were for sale and my friend Tom Werner (a producer of "Roseanne") came to me with the opportunity. We put a group together of 15 guys and got to own the Padres for a while.

Q: Do you think baseball teams are viable entities?

A: They're terrible for most of the clubs. Part of why our group got out is we had this commitment to not lose money and that, in 1994, became almost impossible for a club the size of the Padres. The economics of baseball needs to be fixed. It's enormously complicated. You have a confluence of so many different elements – the way arbitration works, the way free agency works, the ripple effect of one owner who's willing to overpay, the fact that you don't have a sharing of revenue. It's a whole host of things that make it virtually impossible on any ongoing basis for owners of teams to have even a marginally competitive ball club and a profitable ball club.

Serving the Celebs

CITY National Corp. has never shied away from its identity as "banker to the stars." And why would it?

The company revels in a storied roster of clients that includes not only the stars themselves but entertainment lawyers and talent agents, business managers and studio executives. Often, the bank's "top line talent" – as Chief Executive Russell Goldsmith likes to call his movie star customers – can be spotted at the branch on Roxbury Drive in Beverly Hills.

Analysts say there is no way to quantify the entertainment market that City National serves. Bread-and-butter customers are the roughly 250 business management firms in Los Angeles and New York who handle financial affairs for their clients.

"It's kind of fun to have the reputation," said Martha Henderson, executive vice president and manager of the entertainment division, whose staff level has reached 100, up from 16 nearly 20 years ago. "It's like being asked into the right club – and I don't mean

this to sound arrogant – but people know this is what we do and we specialize in it."

City National's relationship with Hollywood dates back to the late Alfred Hart, a blunt-talking board member at Columbia Pictures. Hart founded City National in 1954 with a group of entrepreneurs that included Russell Goldsmith's grandfather, Ben Maltz.

Hart was a close friend of Frank Sinatra and solicited business from a long list of actors that included the Marx brothers, Jack Benny and Danny Kaye. In 1963, when Sinatra's son was kidnapped, he turned to City National for a loan. The bank put up \$240,000 in ransom money.

It was in the early 1970s, when Hart became ill, that Bram Goldsmith, Russell's father, bought out Hart's stake for roughly \$3.6 million.

Henderson said that 95 percent of entertainment industry business managers in the United States are City National clients. That number hasn't changed much over the years.

Business managers do everything from paying bills to filing tax returns, buying houses to planning estates. Because most business managers serve a host of clients, the bank designs a slew of cash management services.

City National has been aggressively moving into new markets to attract wealthy clients outside of Hollywood. During the past five years, the company has purchased two banks in the Bay Area and opened an office in New York, on the assumption that a bi-coastal presence will serve wealthy clients.

City National can "do the home in Malibu and the private jet," said Brock Vandervliet, an analyst at Lehman Brothers. But the expansion is an indication of the relatively limited growth available in entertainment. "That's one of their challenges longer term," he said. "How they can broaden from a very narrow niche?"

– Kate Berry

The bank's assets have quadrupled to \$12 billion from \$3 billion in 1995, and the number of employees has doubled to 2,200, from 1,100 in the same period. Recently, it has concentrated its acquisitions on asset management firms, and expanding into the San Francisco area. Last year, the bank opened its first office in New York.

Perhaps more importantly, throughout this period of consolidation, City National has been savvy enough to scoop up executive talent who were cast off in mergers, or didn't want to leave Los Angeles for, say, Charlotte, N.C.

Of the top 20 executives, 16 hail from larger banks that had recently merged and whose headquarters were now out of state. They include George Benter, City National's president and chief operating officer who was the former vice chairman at Security Pacific Bank, and Frank Pekny, chief financial officer, who held the same title at Security Pacific.

"It has been one of the great drafts of banking talent for us," Goldsmith said. "We've been able over a 10 year period to cherry-pick some of the most talented people in the industry."

With the new talent in place, City National has aggressively targeted small and medium-sized businesses in Southern California, still the largest "middle market" city in the nation. Entertainment lending accounts for 15 percent of the \$3.6 billion commercial loan portfolio. But other commercial lending categories have increased dramatically, including services, now at 22 percent, wholesale trade at 11 percent and manufacturing, at 10 percent.

The total loan portfolio – which includes commercial loans, real estate and residential first mortgages, real estate construction and installment loans – now stands at \$8 billion.

Broadening outside of entertainment and real estate, the bank has developed expertise in other industries, and now supplies financial services to dairy farmers, apparel manufacturers, law firms and medical practices.

But by far the area of greatest expansion has been wealth management.

Last month, the company bought Convergent Capital Management, a large money manager that brought its total assets under management or administration to \$26 billion. Prior to the purchase, City National had

\$19.5 billion under management, including assets from the 2000 acquisition of Reed, Conner & Birdwell of Los Angeles. Prior to those acquisitions, City National had \$16.7 billion in assets under management.

Five years ago, City National came up with an attractive new logo – a blue ladder with the words on "the way up" – a nod to its efforts to aid in "wealth building."

"There is a kind of life cycle for entrepreneurs," Goldsmith said. "They need credit, they need a jumbo mortgage, online cash management and investment capabilities – they need someone who they can

trust and get some advice, not just a broker who can push a hot stock, but someone who understands them, knows they have kids, knows their industry and comes up with solutions for building their net worth."

Growing pains

That's not to say there haven't been problems.

City National's forays into Northern California have led to some erosion of its credit quality.

chief executive. The company makes its first major acquisition, of First Los Angeles Bank.

1997: The company acquires Riverside National Bank, Frontier Bank and Ventura County National Bancorp.

1999: City National buys American Pacific State Bank.

2000: The company buys Pacific Bank in Northern California and purchases Reed Conner & Birdwell, an L.A.-based investment management firm.

2003: The company acquires Convergent Capital Management LLC, bringing assets under management to \$26 billion.

2003: The bank now has total assets of \$12 billion and 54 offices.

Source: City National Corp.

City National History

1954: City National Bank is founded to serve the entertainment and real estate industries in Southern California.

1964: Future CEO Bram Goldsmith is elected to the board.

1967: City National opens its 24-story Pershing Square office building in downtown Los Angeles.

1975: Bram Goldsmith is named chairman and chief executive.

1978: Russell Goldsmith is elected to the board.

1979: Assets top \$1 billion.

1990: City National stock begins trading on the New York Stock Exchange.

1995: Russell Goldsmith is named chairman and



City National executives with Gen. Omar Bradley in 1950s.