

# INVESTOR'S BUSINESS DAILY

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## THE NEW AMERICA

**CITY NATIONAL CORP.** *Beverly Hills, California*

# No Longer Starstruck, Bank Woos Wider Mix

BY MARILYN ALVA

INVESTOR'S BUSINESS DAILY

Some people in California still think of City National Corp. as the bank to the stars.

But the 50-year-old Beverly Hills-based firm, parent of City National Bank, stepped out of the Hollywood limelight years ago.

"I'm sure they have a movie star here and there, (but) it's a legacy that doesn't apply anymore," said Campbell Chaney, analyst with Sanders Morris Harris.

These days, City National touts itself as the bank of the California entrepreneur.

Thanks to an active diversification program, only 10% to 15% of the bank's business now comes from the entertainment industry, says Chief Executive Russell Goldsmith.

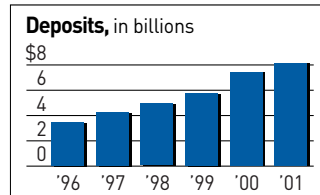
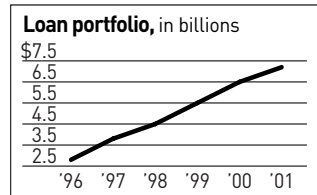
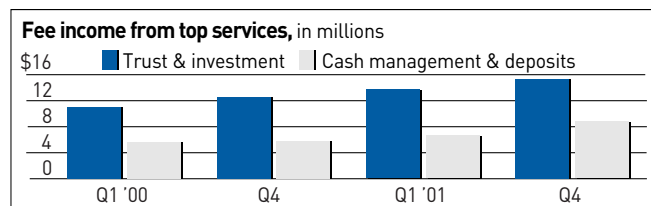
It's not that he has anything against show business. Before he stepped into the top role at City National in 1995, he ran Republic Pictures Corp. That was before it merged with Spelling Entertainment Group.

Before that, Goldsmith was chief operating officer at Lorimar Inc., a TV production firm.

California is much more than entertainment, Goldsmith says. He points out

### Banking On Entrepreneurs

City National has hit its stride by targeting California's affluent entrepreneurs and their business accounts



Sources: Company reports; Fox-Pitt, Kelton

that the state has the world's fifth largest economy. Southern California alone has the 10th largest.

The bank goes after businesses with \$5 million to \$250 million in annual revenue and individuals with investable assets of more than \$1 million. The aim: offer them an array of financial services and products.

The list includes personal investment and trust services, jumbo mortgages, mutual funds, 401(k) plans and credit lines.

City National didn't always have so much to give, but acquisitions have helped the firm diversify.

Its buy of North American Trust Co. three years ago brought aboard a 401(k) platform. In late 2000,

asset-management firm Reed, Conner & Birdwell joined the fold, giving City National a way to generate additional fee income.

"It was a nice complement to what the bank had in the trust area," said Joe Morford, analyst with RBC Capital Markets.

The bank's noninterest income grew 20% last year, representing 23% of the company's \$758 million revenue. Low-cost deposits grew 15% to \$7.1 billion.

But low interest rates hurt the bank's margins some, since those deposits are linked to the prime.

Profit growth also slowed. City National posted 2001 earnings of \$2.96 a share. That represented a 9% year-over-year gain — half as

much growth as in 2000. Analysts polled by First Call see earnings this year rising 17% to \$3.46 a share, then reaching \$3.80 in 2003.

Goldsmith says City National will continue to build out its private banking franchise — and its fee income — by pursuing more acquisitions of asset-management firms. But it probably won't be a cakewalk.

"A lot of banks are trying to buy these investment-type companies," Chaney said. "There are a finite amount."

City National's rivals for high-end customers include First Republic Bank and Mellon Financial Corp. Also in the fray are traditional investment houses such as Merrill Lynch & Co.

Meanwhile, Goldsmith says, City National is on a mission to improve the way it delivers wealth-management services. It's hiring more personnel and adding investment advisors to customer teams. The idea is to simplify and expand client relationships.

City National is no stranger to personal service. From its movie-industry heyday, it gained a reputation for catering to wealthy, high-maintenance clients.

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"They know what makes those types of customers happy," Chaney said.

City National has a retail side. But that's not a big focus as it is with megabanks such as Wells Fargo & Co. or Bank of America Corp.

"We don't have supermarket branches," Goldsmith said. "We don't have 1,000 offices in the state."

City National has about 50 branch offices from San Diego to San Francisco, with the heaviest concentration in greater Los Angeles.

Some half-dozen small bank acquisitions in the last eight years expanded City National's presence in neighboring counties of Los Angeles.

Two years ago, it moved into the San Francisco Bay area when it ac-

quired Pacific Bank. Later this month, it's set to close on its second northern California bank purchase: Civic Bancorp, based in the East Bay. That'll mean 10% of City National's \$10 billion in assets will come from Northern California. That worries some observers.

"The concern is that the economy has fared a little worse there than the rest of the U.S. and California," said analyst Brian Harvey of Fox-Pitt, Kelton.

He cites falling real estate values as an example.

But Harvey says City National has limited exposure to real estate in the Bay area. And because of its conservative underwriting policies, he says, it won't be as affected as some other banks in the region.

Some suggest the firm might actually benefit from the region's woes.

"They're in the Bay area transacting business when some others are retreating," Chaney said. "Even in San Francisco, the City National name is starting to carry some weight."

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### City National Corp.

**cnb.com**

Ticker	CYN
Share price	Near 50
12-month sales	\$757 mil
5-year profit growth rate	16%

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#### IBD SmartSelect Corporate Ratings

Earnings Per Share	89
Relative Price Strength	80
Industry Group Relative Strength	C+
Sales+Profit Margins+ROE	A
Accumulation/Distribution	B+

See [investors.com](http://investors.com) for more details

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