CITY NATIONAL CORP
Form 10-K
March 15, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______________ to ______________

Commission file number 1-10521

CITY NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

No securities are registered pursuant to Section 12(g) of the Act

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 ý NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES ý NO o

The aggregate market value of the registrant's common stock ("Common Stock") held by non-affiliates is approximately $1,794,574,104 (based on the June 30, 2003 closing price of Common Stock of $44.56 per share).

As of March 1, 2004, there were 48,786,696 shares of Common Stock outstanding.

Documents Incorporated by Reference

The information required to be disclosed pursuant to Part III of this report either shall be (i) deemed to be incorporated by reference from selected portions of City National Corporation's definitive proxy statement for the 2004 annual meeting of stockholders, if such proxy statement is filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

PART I

Item 1. Business

General

City National Corporation (the "Corporation") was organized in Delaware in 1968 to acquire the outstanding capital stock of City National Bank (the "Bank"). References to the "Company" reflect all of the activities of the Corporation and its subsidiaries, including the Bank. The Corporation owns all the outstanding shares of the Bank.

The Bank, which was founded in 1953 and opened for business in January 1954, conducts business in California and New York City. In January 2004, the Bank celebrated its 50th year as an independent California bank now providing banking, investment and trust services through 53 offices, including 12 full-service regional centers, in Southern California, the San Francisco Bay Area and New York City.

In the three years ended December 31, 2003, the Company acquired two financial services institutions. On April 1, 2003, the Corporation acquired Convergent Capital Management, LLC, ("CCM") 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 manage assets of approximately $8.5 billion as of December 31, 2003. 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. On February 28, 2002, the Company completed the acquisition of Civic BanCorp ("Civic") headquartered in Oakland, California with total assets at December 31, 2001 of $524.0 million. The total purchase price was $123.5 million (including the consideration for outstanding stock options). Subsequently two former Civic BanCorp branches with combined deposits of approximately $37.0 million were sold. See " Note 2 to Notes to Consolidated Financial Statements" on page A-48 of this report.

The Company is engaged in one operating segment: providing private and business banking, including investment and trust services. The Bank is the second largest independent commercial bank headquartered in California. The Bank's principal client base comprises small-to mid-sized businesses, entrepreneurs, professionals, and affluent individuals. For 50 years, the Bank has served its clients through relationship banking. The Bank seeks to build client relationships with a high level of personal service and tailored products through private and commercial banking teams, product specialists and investment advisors to facilitate the use by the client, where appropriate, of multiple services and products offered by the Company. The Company offers a broad range of lending, deposit, cash management, international banking, and other products and services. The Company also lends, invests, and provides services in accordance with its Community Reinvestment Act ("CRA") commitment. Through CCM and Reed, Conner & Birdwell, LLC ("RCB"), subsidiaries of the Corporation, and Wealth Management, a division of the Bank, the Company offers 1) investment management and advisory services and brokerage services, including portfolio management, securities trading and asset management, 2) personal and business trust and investment services, including employee benefit trust services, 401(k) and defined benefit plans and 3) estate and financial planning and custodial services. The Bank also advises and makes available mutual funds under the name of CNI Charter Funds.

At December 31, 2003, the Company had 2,348 full-time equivalent employees.

Competition

The banking business is highly competitive. The Bank competes with domestic and foreign banks for deposits, loans, and other banking business. In addition, other financial intermediaries, such as savings and loans, money market mutual funds, securities firms, credit unions, insurance companies and other financial services companies, compete with the Bank. Furthermore, interstate banking legislation

has eroded the geographic constraints on the financial services industry. Legislation has facilitated the ability of non-depository institutions to act as financial intermediaries. See " Supervision and Regulation."

Economic Conditions, Government Policies, Legislation, and Regulation

The Company's profitability, like most financial institutions, is highly dependent on interest rate differentials. In general, the difference between the interest rates paid by the Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on its interest-earning assets, such as loans extended to its clients and securities held in its investment portfolio, comprise the major portion of the Company's earnings. These rates are highly sensitive to many factors that are beyond the Company's control, such as inflation, recession, and unemployment. The impact of future changes in domestic and foreign economic conditions might have on the Company cannot be predicted.

The Company's business is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Federal Reserve implements national monetary policies (with objectives such as curbing inflation and combating recession) through its open-market operations in U.S. Government securities, by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact on the Company of any future changes in monetary and fiscal policies cannot be predicted.

Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies, and other financial institutions and financial services providers are frequently introduced in the U.S. Congress, in the state legislatures, and before various regulatory agencies. The likelihood and timing of any proposals or legislation and the impact they may have on the Company cannot be determined at this time. See " Supervision and Regulation."

Supervision and Regulation

General

Bank holding companies and banks are extensively regulated under both federal and state law. This regulation is intended primarily for the protection of depositors, the deposit insurance fund, and other clients of the Bank, and not for the benefit of shareholders of the Corporation. Set forth below is a summary description of the material laws and regulations that relate to the operations of the Corporation and the Bank. The description is qualified in its entirety by reference to the applicable laws and regulations.

The Corporation

The Corporation, as a registered bank holding company, is subject to regulation by the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). In exercising its regulatory authority, the Federal Reserve may:

- Conduct examinations of the Corporation and its subsidiaries;

Require the Corporation to terminate activities that the Federal Reserve believes constitute a significant risk to the financial safety, soundness, or stability of the Corporation or any of its banking subsidiaries;

Limit the Corporation's ability to repurchase or redeem its equity securities;

Restrict certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services;

Require the Corporation to obtain the prior approval of the Federal Reserve before acquiring another bank holding company or a bank; and

Prohibit the Corporation, except in certain statutorily prescribed instances, from acquiring or engaging in non-banking activities, other than any activities that are deemed by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto (See "Gramm-Leach Bliley Act of 1999").

Under Federal Reserve regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve's policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve's regulations or both.

The Bank

The Bank, as a national banking association, is subject to primary supervision, examination, and regulation by the Office of the Comptroller of the Currency (the "Comptroller"). To a lesser extent, the Bank is also subject to certain regulations promulgated by the Federal Reserve and the Federal Deposit Insurance Corporation. If, as a result of an examination of a bank, the Comptroller should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the bank's operations are unsatisfactory or that the bank or its management is violating or has violated any law or regulation, various remedies are available to the Comptroller. These remedies include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the bank, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate the bank's deposit insurance.

Various requirements and restrictions under the laws of the United States affect the operations of the Bank. Statutes and regulations relate to many aspects of the Bank's operations, including reserves against deposits, ownership of deposit accounts, interest rates payable on deposits, loans, investments, mergers, and acquisitions, borrowings, dividends, locations of branch offices, and capital requirements. Further, the Bank is required to maintain certain levels of capital. See "Capital Standards."

Gramm-Leach Bliley Act of 1999

Under the Gramm-Leach-Bliley Act of 1999 (the "GLB Act"), a bank holding company, that meets certain specified requirements, can elect to become a "financial holding company" and engage in a broader range of financial activities. These activities include insurance underwriting and brokerage, securities activities, merchant banking and additional activities that the Federal Reserve, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Pursuant to the GLB Act, financial holding companies can affiliate with certain other financial services providers and form single financial services organizations offering customers an array of financial products and services. Although the Corporation currently meets the requirements to become a financial holding company, the Corporation's management has not elected to do so at this time. The Corporation continues to examine its strategic business plan to determine whether, based on market conditions, the relative financial conditions of the Corporation and its subsidiaries, regulatory capital requirements, general economic conditions, and other factors, the Corporation desires to use the expanded powers provided in the GLB Act.

The GLB Act also permits national banks to engage in expanded activities through the formation of financial subsidiaries, subject to certain conditions and limitations. A national bank may have a subsidiary engage in any activity authorized for national banks directly or any financial activity, except for, among others, insurance underwriting, insurance investments, or merchant banking, which may only be conducted through a subsidiary of a financial holding company. Financial activities include all other activities permitted under new sections of the BHCA or permitted by regulation. The Bank has not formed a financial subsidiary at this time.

Pursuant to the GLB Act, federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These rules require disclosure of privacy policies to consumers and, in some circumstance, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party.

In addition, the GLB Act directed federal banking regulators to adopt consumer protection rules for the sale of insurance products by depository institutions. These rules prohibit depository institutions from conditioning an extension of credit on the consumer's purchase of an insurance product or annuity from the depository institution or from any of its affiliates, or on the consumer's agreement not to obtain, or a prohibition on the consumer from obtaining, an insurance product or annuity from an unaffiliated entity. Furthermore, to the extent practicable, a depository institution must keep insurance and annuity sales activities physically segregated from the areas where retail deposits are routinely accepted from the general public. Finally, the rule contains required disclosures and addresses cross marketing and referral fees.

USA Patriot Act

The USA Patriot Act of 2001 strengthens the ability of various agencies of the United States to work cohesively to combat money laundering and terrorism on a variety of fronts. Regulations propounded under the Act impose various requirements on financial institutions, such as:

- Due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons;
- Standards for verifying customer identification at account opening; and
- Rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in money laundering and terrorism.

The Check Clearing For The 21st Century Act ("Check 21")

Check 21 was passed by Congress and signed into law October 28, 2003, to become effective October 28, 2004. Check 21 seeks to promote improvement in the check processing system and to reduce some of the legal impediments to check truncation. Check 21 creates a new negotiable instrument called a "substitute check" which permits banks to truncate original checks, process information from the checks electronically and deliver the substitute checks to banks requiring the receipt of paper checks. The Federal Reserve Board of Governors has authority to propound regulations to facilitate the implementation of Check 21. As the regulations are in proposed form and

have yet to be finalized, the Corporation is not able to predict the impact of Check 21 on its financial condition or results of operations at this time.

Dividends and Other Transfers of Funds

The Corporation is a legal entity separate and distinct from the Bank. Dividends from the Bank constitute the principal source of income to the Corporation. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends to the Corporation. Under such restrictions, at December 31, 2003, the Bank could have paid dividends of $234.9 million to the Corporation without obtaining prior approval of its banking regulators. In addition, the Federal Reserve has the authority to prohibit the Bank from paying dividends, depending upon the Bank's financial condition, if such payment is deemed to constitute an unsafe or unsound practice.

The Comptroller also has the authority to prohibit the Bank from engaging in activities that, in its opinion, constitute unsafe or unsound practices in conducting its business. It is possible, depending upon the financial condition of the Bank and other factors, that the Comptroller could assert that the payment of dividends or other payments might, under some circumstances, be such an unsafe or unsound practice. Further, the bank regulatory agencies have established guidelines with respect to the maintenance of appropriate levels of capital by banks or bank holding companies under their jurisdiction. Compliance with the standards set forth in such guidelines and the restrictions that are or may be imposed under the prompt corrective action provisions of federal law could limit the amount of dividends which the Bank or the Corporation may pay.

Federal law limits the ability of the Bank to extend credit to the Corporation or its other affiliates, to invest in stock or other securities thereof, to take such securities as collateral for loans, and to purchase assets from the Corporation or other affiliates. These restrictions prevent the Corporation and such other affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts. Further, such secured loans and investments by the Bank to or in the Corporation or to or in any other affiliate are limited individually to 10.0 percent of the Bank's capital and surplus and in the aggregate to 20.0 percent of the Bank's capital and surplus. See "Note 10 to Notes to Consolidated Financial Statements" on page A-60 of this report. Additional restrictions on transactions with affiliates may be imposed on the Bank under the prompt corrective action provisions of federal law. See " Prompt Corrective Action and Other Enforcement Mechanisms."

Capital Standards

Each federal banking agency has adopted risk-based capital regulations under which a banking organization's capital is compared to the risk associated with its operations for both transactions reported on the balance sheet as assets as well as transactions which are off-balance sheet items, such as letters of credit and recourse arrangements. Under the capital regulations, the nominal dollar amounts of assets and the balance sheet equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0 percent for asset categories with low credit risk, such as certain U.S. Treasury securities, to 100 percent for asset categories with relatively high credit risk, such as commercial loans.

In addition to the risk-based capital guidelines, federal banking agencies require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated composite 1 under the "Composite Uniform Financial Institutions Rating System (CAMELS)" for banks, which rating is the lowest level of supervisory concern of the five categories used by the federal banking agencies to rate banking organizations ("5" being the highest level of supervisory concern), the minimum leverage ratio of Tier 1 capital to total assets is 3 percent. For all banking organizations other than those rated composite 1 under the CAMELS system, the minimum leverage ratio of Tier 1 capital to total assets is 4 percent. Banking

organizations with supervisory, financial, operational, or managerial weaknesses, as well as organizations that are anticipating or experiencing significant growth, are expected to maintain capital ratios above the minimum levels. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the federal banking agencies have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

At December 31, 2003, the Corporation and the Bank each exceeded the required risk-based capital ratios for classification as "well capitalized" as well as the required minimum leverage ratios. See "Management's Discussion and Analysis Balance Sheet Analysis Capital" on page A-15 of this report.

Prompt Corrective Action and Other Enforcement Mechanisms

Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall below one or more prescribed minimum capital ratios.

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized unless its capital ratio actually warrants such treatment.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency.

Safety and Soundness Standards

As required by the Federal Deposit Insurance Corporation Improvement Act of 1991, as amended, the federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems, and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) compensation, fees, and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish allowances that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

Federal regulations require banks to maintain adequate valuation allowances for potential credit losses. The Company has an internal risk analysis and review staff that continually reviews loan quality and ultimately issues reports to the Audit Committee. This analysis includes a detailed review of the

classification and categorization of problem loans, assessment of the overall quality and collectibility of the loan portfolio, consideration of loan loss experience, trends in problem loans, concentration of credit risk, and current economic conditions, particularly in California. Based on this analysis, management, with the review and approval of the Audit Committee, determines the adequate level of allowance required. The allowance for credit losses is allocated to different segments of the loan portfolio, but the entire allowance is available for the loan portfolio in its entirety.

Premiums for Deposit Insurance

The Bank's deposit accounts are insured by the Bank Insurance Fund ("BIF"), as administered by the Federal Deposit Insurance Corporation (the "FDIC"), up to the maximum permitted by law. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC or the institution's primary regulator.

The FDIC charges an annual assessment for the insurance of deposits, which as of December 31, 2003 ranged from 0 to 27 cents per $100 of insured deposits, based on the risk a particular institution poses to its deposit insurance fund. The risk classification is based on an institution's capital group and supervisory subgroup assignment. An institution's capital group is based on the FDIC's determination of whether the institution is well capitalized, adequately capitalized, or less than adequately capitalized. An institution's supervisory subgroup assignment is based on the FDIC's assessment of the financial condition of the institution and the probability that FDIC intervention or other corrective action will be required. In addition to its normal deposit insurance premium as a member of the BIF, the Bank must pay an additional premium toward the retirement of the Financing Corporation bonds ("Fico Bonds") issued in the 1980s to assist in the recovery of the savings and loan industry. In 2003, this premium was approximately 1.6 cents per $100 of insured deposits.

Interstate Banking and Branching

The BHCA permits bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including certain nationwide- and state-imposed concentration limits. The Company has the ability, subject to certain restrictions, to acquire by acquisition or merger branches outside its home state. The establishment of new interstate branches is also possible in those states with laws that expressly permit it. Interstate branches are subject to certain laws of the states in which they are located. Competition may increase further as banks branch across state lines and enter new markets. In December 2002, the Company purchased an existing branch in New York and opened a private banking facility. From time to time, the Company may consider and if deemed feasible, may engage in additional interstate branch acquisitions.

Community Reinvestment Act ("CRA") and Fair Lending Developments

The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and CRA activities. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low- and moderate-income neighborhoods. A bank may be subject to substantial penalties and corrective measures for a violation of certain fair lending laws. The federal banking agencies may take compliance with such laws and CRA obligations into account when regulating, approving, and supervising other activities.

A bank's compliance with its CRA obligations is based on a performance-based evaluation system which bases CRA ratings on an institution's lending, service and investment performance. When a bank holding company applies for approval to acquire a bank or other bank holding company, the Federal

Reserve will review the assessment of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application. In connection with its assessment of CRA performance, the appropriate bank regulatory agency assigns a rating of "outstanding," "satisfactory," "needs to improve," or "substantial noncompliance." A bank's CRA rating will also affect the ability of the bank and its bank holding company to take advantage of the new powers granted by the GLB Act. Based on the most current examination report dated January 13, 2003, the Bank was rated "satisfactory."

Investment Advisers Act

Under the Investment Advisers Act of 1940 ("Advisers Act"), investment advisers who manage $25 million or more in client assets or who act as an adviser to a registered investment company, such as RCB and the asset management firms owned by CCM, must register with the Securities and Exchange Commission ("SEC").

Corporate Governance

On July 30, 2002, Congress enacted the Sarbanes-Oxley Act of 2002 ("SOX"), a law that addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. SOX required significant Securities and Exchange Commission (the "SEC") action within a short period of time and since July 2002, there have been a substantial number of rulemaking initiatives conducted by the SEC pursuant to SOX. The New York Stock Exchange has also adopted modified corporate governance standards in light of SOX that have been reviewed and approved by the SEC.

Consistent with the new requirements regarding corporate governance, and, more importantly, because the Corporation's Board of Directors (the "Board") has always believed and continues to maintain that corporate governance and the highest standards of business ethics and practices are vital to the success of the Company, in 2003 the Board approved a series of actions to enhance and clarify its existing strong corporate governance practices. Included in these actions was the adoption of the Corporation's Corporate Governance Guidelines (the "Guidelines") to address significant corporate governance issues of the Corporation; and new charters for the Audit Committee and Compensation, Nominating and Governance Committee (as reflected in the Corporation's 2003 Proxy). The Guidelines, charters and composition of both the Audit Committee and the Compensation, Nominating and Governance Committee of the Board can be viewed, free of charge, on the Corporate Governance section of the Investor Relations page of the Corporation's web site at www.cnb.com, and are available in print to any shareholder upon request free of charge. Requests for print copies can be sent by mail to the Corporation's executive offices located at the address set forth on the cover page, Attention: Corporate Secretary.

Code of Ethics

As part of its corporate governance actions in 2003, the Corporation's Board adopted a Code of Ethics for Senior Financial Officers ("Code of Ethics") that applies to the Corporation's principal executive officer, the principal financial officer, the assistant chief financial officer, the principal accounting officer or controller, or persons performing similar functions. Pursuant to SEC rules, the Corporation is required to disclose amendments to, or waivers from, its Code of Ethics. We intend to use our web site at www.cnb.com to disseminate this disclosure as permitted by applicable SEC rules. There were no waivers or amendments to the Code of Ethics in 2003. The Board has also adopted a code of ethics entitled "Principles of Business Conduct and Ethics" which applies to all directors, officers and employees. Each of these codes can be viewed, free of charge, on the corporate governance section of the Investor Relations page of the Corporation's web site and are available in print to any shareholder upon request free of charge. Requests for print copies can be sent by mail to the Corporation's executive offices located at the address set forth on the cover page, Attention: Corporate Secretary.

Available Information

The Company's home page on the Internet is www.cnb.com. The Company makes its web site content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Form 10-K.

The Company makes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statement for its annual shareholder meetings, as well as any amendment to those reports, available free of charge through its web site as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. You can learn more about the Company by reviewing the Company's SEC filings on its web site. The Company's SEC reports can be accessed through the investor relations page of its web site. The SEC also maintains a web site at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants, including the Corporation.

Item 2. Properties

The Company has its principal offices in the City National Center, 400 North Roxbury Drive, Beverly Hills, California 90210, which the Company owns and occupies. The property has a market value in excess of its depreciated value included in the Company's financial statements. The Company actively maintains operations in 53 banking offices and certain other properties.

Since 1967, the Bank's Pershing Square Banking Office and a number of Bank departments have been a tenant of the office building located at 606 South Olive Street in downtown Los Angeles. The building was originally developed and built by a partnership between a wholly-owned subsidiary of the Bank, Citinational Bancorporation, and Buckeye Construction Co., and Buckeye Realty and Management Corporation (two corporations then affiliated with Mr. Bram Goldsmith, then only a director and currently Chairman of the Board of the Corporation). Since its completion and through October 31, 2003, the building had been owned by Citinational-Buckeye Building Co., a limited partnership of which Citinational Bancorporation and Olive-Sixth Buckeye Co. were the only general partners, each with a 29 percent partnership interest. Citinational Bancorporation had an additional 3 percent interest as a limited partner of Citinational-Buckeye Building Co.; the remainder was held by other, unaffiliated limited partners. Olive-Sixth Buckeye Co. was a limited partnership of which Mr. Goldsmith was a 49 percent general partner; therefore, Mr. Goldsmith had an indirect 14 percent ownership interest in Citinational-Buckeye Building Co. The remaining general partner and all limited partners of Olive-Sixth Buckeye Co. were not affiliated with the Corporation. Since 1990 and through October 31, 2003, Citinational-Buckeye Building Co. had managed the building, which was almost fully leased. On October 31, 2003, the building was sold to unrelated parties with no financing by the Bank and the Bank's share of the gain on sale was deferred and is being amortized over the remaining term of its leases. Prior to consummating the sale, the Bank's leases with the owner of the building were modified and extended. The lease modification also confirmed the Bank's rights to roof signage so long as it remains the responsible (as contrasted to occupying) party under its leases.

As of December 31, 2003, the Bank owned one other banking office property in Riverside, California.

On November 19, 2003, the Bank entered into a lease for up to 310,055 rentable square feet of commercial office space in downtown Los Angeles in the office tower located at 555 S. Flower Street and plaza building at 525 Flower Street, commonly known as the ARCO Plaza complex. Occupancy in the south office tower is expected to commence in the third quarter of 2004 and the building will be renamed "City National Tower". The new City National Tower will serve as the Bank's new

administrative center, bringing together more than 20 departments, from Product Management, Cash Management, International and Finance to Human Resources, Marketing, Community Reinvestment and select areas of Wealth Management. The Bank will also relocate its nearby Library Tower banking office to 6,600 square feet in a three-story building that is located adjacent to the City National Tower. Until then, that branch and the bank's downtown business and private banking centers will remain in Library Tower. The new City National Tower and the plaza banking office together will form the Company's expanded Downtown Los Angeles Regional Center, offering extensive private and business banking and wealth management capabilities and will be renamed "City National Plaza" in September 2005.

The remaining banking offices and other properties are leased by the Bank. Total annual rental payments (exclusive of operating charges and real property taxes) are approximately $22.7 million, with lease expiration dates ranging from 2004 to 2020, exclusive of renewal options.

Item 3. Legal Proceedings

The Corporation and its subsidiaries are defendants in various pending lawsuits. Based on present knowledge, management, including in-house counsel, does not believe that the outcome of such lawsuits will have a material adverse effect upon the Company.

The Corporation is not aware of any material proceedings to which any director, officer, or affiliate of the Corporation, any owner of record or beneficially of more than 5 percent of the voting securities of the Corporation as of December 31, 2003, or any associate of any such director, officer, affiliate of the Corporation, or security holder is a party adverse to the Corporation or any of its subsidiaries or has a material interest adverse to the Corporation or any of its subsidiaries.

Item 4. Submission of Matters to a Vote of Security Holders

There was no submission of matters to a vote of security holders during the fourth quarter of the year ended December 31, 2003.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Corporation's common stock is listed and traded principally on the New York Stock Exchange under the symbol "CYN." Information concerning the range of high and low sales prices for the Corporation's common stock, and the dividends declared, for each quarterly period within the past two fiscal years is set forth below.

Quarter Ended	High	Low	Dividends Declared
2003			
March 31	$ 47.04	$ 42.84	$ 0.205
June 30	45.98	38.70	0.205
September 30	52.83	43.50	0.280
December 31	64.49	50.97	0.280
2002			
March 31	$ 53.18	$ 45.40	$ 0.195
June 30	56.42	50.10	0.195
September 30	54.58	43.49	0.195
December 31	48.39	40.10	0.195

As of March 1, 2004, the closing price of the Corporation's stock on the New York Stock Exchange was $62.38 per share. As of that date, there were approximately 1,665 record holders of the Corporation's common stock. On January 21, 2004, the Board of Directors authorized a regular quarterly cash dividend on its common stock at an increased rate of $0.32 per share (up 14 percent from the $0.28 per share previously paid) payable on February 17, 2004 to all shareholders of record on February 4, 2004.

For a discussion of dividend restrictions on the Corporation's common stock, see "Note 10 to Notes to Consolidated Financial Statements" on page A-60 of this report.

There were no issuer repurchases of the Corporation's common stock in the fourth quarter of the year ended December 31, 2003.

Item 6. Selected Financial Data

The information required by this item appears on page A-2, under the caption "Selected Financial Information," and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by this item appears on pages A-3 through A-36, under the caption "Management's Discussion and Analysis," and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item appears on pages A-16 through A-21, under the caption "Management's Discussion and Analysis," and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The information required by this item appears on pages A-38 through A-70 and on page A-36, under the captions "2003 Quarterly Operating Results" and "2002 Quarterly Operating Results," and is incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Under SEC rules, the Company is required to maintain disclosure controls and procedures designed to ensure that information required to be disclosed 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 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 acting 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 Controls

There have not been any changes in the Company's internal control over financial reporting during the Company's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

Shown below are the names and ages of all executive officers of the Corporation and officers of the Bank who are deemed to be executive officers of the Corporation, with indication of all positions and offices with the Corporation and the Bank. Mr. Russell Goldsmith is the son of Mr. Bram Goldsmith.

Name	Age	Present principal occupation and principal occupation during the past five years
Russell D. Goldsmith	54	Vice Chairman and Chief Executive Officer, City National Corporation since October 1995; Chairman of the Board and Chief Executive Officer, City National Bank since October 1995
Bram Goldsmith	81	Chairman of the Board, City National Corporation
George H. Benter, Jr.	62	President, City National Corporation since 1993; President and Chief Operating Officer, City National Bank since 1992
Frank P. Pekny	60	Executive Vice President and Treasurer/Chief Financial Officer, City National Corporation since 1992; Vice Chairman and Chief Financial Officer since 1995, City National Bank
Jan R. Cloyde	53	Executive Vice President, City National Corporation and City National Bank, and Director of Banking Services, City National Bank since October 1998
Michael B. Cahill	50	Executive Vice President, Secretary and General Counsel, City National Bank and City National Corporation, since June 2001; President and CEO, Avista Ventures, Inc., and Pentzer Corporation, 1999-2001; President and CEO, Imfax, Inc. 1997-1999
Stephen D. McAvoy	58	Controller, City National Corporation since March 1998; Senior Vice President and Controller, City National Bank since March 1998
Christopher J. Warmuth	49	Executive Vice President and Chief Credit Officer, City National Bank since June 2002; Executive Vice President and Chief Commercial Credit Officer, Bank of the West April 2002 to May 2002; Chief Credit Officer and Head of the Quality Management Division United California Bank (formerly Sanwa Bank California) March 1998 to March 2002;

The additional information required by this item, to the extent not set forth above or included under "Item 1. Business, Code of Ethics" in Part I of this report, will appear in the Corporation's definitive proxy statement for the 2004 Annual Meeting of Stockholders (the "2004 Proxy Statement"), and such information either shall be (i) deemed to be incorporated herein by reference from that portion of the 2004 Proxy

Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

Item 11. Executive Compensation

The information required by this item will appear in the 2004 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2004 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item will appear in the 2004 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2004 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

Item 13. Certain Relationships and Related Transactions

The information required by this item will appear in the 2004 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2004 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period. Also see "Note 4 to Notes to Consolidated Financial Statements" on page A-51 of this report.

Item 14. Principal Accountant Fees and Services.

The information required by this item will appear in the 2004 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2004 Proxy Statement, if filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Corporation's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Commission on Form 10-K/A not later than the end of such 120 day period.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements:

2. All other schedules and separate financial statements of 50 percent or less owned companies accounted for by the equity method have been omitted because they are not applicable.

3. Exhibits

3.	(a)	Restated Certificate of Incorporation (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
	(b)	Form of Certificate of Designations of Series A Junior Participating Cumulative Preferred Stock (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
	(c)	Bylaws, as amended to date (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10- K for the year ended December 31, 1999).
4.	(a)	Specimen Common Stock Certificate for Registrant (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
	(b)	Issuing and Paying Agreement between the Bank and Continental Stock Transfer & Trust Company dated as of January 7, 1998 pursuant to which the Bank issued its 6.375 percent Subordinated Notes Due 2008 in the principal amount of $125 million and form of 6.375 percent Subordinated Note due 2008 (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
	(c)	6.75 percent Subordinated Notes Due 2011 in the principal amount of $150.0 million (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
	(d)	Indenture dated as of February 13, 2003 between Registrant and U.S. Bank National Association, as Trustee pursuant to which Registrant issued its 5.125 percent Senior Notes due 2013 in the principal amount of $225.0 million and form of 5.125 percent Senior Note due 2013 (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).

	(e)	Certificate of Amendment of Articles of Incorporation of CN Real Estate Investment Corporation Articles of Incorporation (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
	(f)	CN Real Estate Investment Corporation By Laws (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
	(g)	CN Real Estate Investment Corporation Servicing Agreement (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
	(h)	CN Real Estate Investment Corporation II Articles of Amendment and Restatement (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
	(i)	

		CN Real Estate Investment Corporation II Amended and Restated Bylaws (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
	(j)	Rights Agreement dated as of February 26, 1997 between the Registrant and Continental Stock Transfer & Trust Company, as Rights Agent (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
10.	(a) *	Employment Agreement made as of May 15, 2003, by and between Bram Goldsmith, and the Registrant and City National Bank. (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
	(b)*	Sixth Amendment to Split Dollar Life Insurance Agreement Collateral Assignment Plan between City National Bank and the Goldsmith 1980 Insurance Trust, dated March 18, 1998 (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
	(c)*	Seventh Amendment to Split Dollar Life Insurance Agreement Collateral Assignment Plan between City National Bank and the Goldsmith 1980 Insurance Trust, dated June 1, 1999 (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
	(d)*	Employment Agreement made as of May 15, 2001, by and between Bram Goldsmith, and the Registrant and City National Bank, including Eighth Amendment to Split Dollar Life Insurance Agreement Collateral Assignment Plan between City National Bank and the Goldsmith 1980 Insurance Trust, dated May 15, 2001 (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
	(e)*	Split Dollar Life Insurance Agreement Collateral Assignment Plan between City National Bank and the Goldsmith 1980 Insurance Trust, dated as of June 13, 1980, and first through fourth amendments thereto (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
	(f)*	Fifth Amendment to Split Dollar Life Insurance Agreement Collateral Assignment Plan between City National Bank and the Goldsmith 1980 Insurance Trust, dated May 15, 1995 (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).

	(g)*	1985 Stock Option Plan, as amended to date (This Exhibit is incorporated by reference from the Registrant's Annual Report Form 10-K for the year ended December 31, 1999).
	(h)*	Stock Option Agreement under the Registrant's 1985 Stock Option Plan dated as of October 16, 1995, between the Registrant and Russell Goldsmith (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000).
	(i)*	Employment Agreement made as of March 20, 2003 by and between Russell Goldsmith and the Registrant and City National Bank (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
	(j)*	1995 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000).
	(k)*	Amendment to 1995 Omnibus Plan (This Exhibit is incorporated by reference form the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
	(l)*	Amended and Restated Section 2.8 of 1995 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
	(m)*	1999 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
	(n)*	

	2002 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant's Proxy Statement filed with the SEC for the year ended December 31, 2001).
(o)*	1999 Variable Bonus Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
(p)*	First Amendment to 1999 Variable Bonus Plan (This Exhibit is incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001).
(q)*	2000 City National Bank Executive Deferred Compensation Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000).
(r)*	Form of Change of Control Agreement for members of City National Bank executive committee (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
(s)*	2000 City National Bank Director Deferred Compensation Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000).
(t)*	City National Bank Executive Management Bonus Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000).
(u)*	City National Corporation 2001 Stock Option Plan (This Exhibit is incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000).

(v)	Lease dated September 30, 1996 between Citinational-Buckeye Building Co. and City National Bank, as amended by that certain First Lease Addendum dated as of May 1, 1998, by that certain Second Lease Addendum dated as of November 13, 1998, by that certain Third Lease Addendum dated as of November 1, 2002 and the 2003 Lease Supplement (as herein defined).
(w)	Lease dated November 1, 2002, between Citinational-Buckeye Building Co. and City National Bank as amended by the 2003 Lease Supplement (as herein defined).
(x)	Lease dated August 1, 2000, between Citinational-Buckeye Building Co. and City National Bank, as amended by that certain First Lease Addendum dated as of November 1, 2002, and the 2003 Lease Supplement (as herein defined).
(y)	Lease Supplement, dated May 28, 2003 (the "2003 Lease Supplement"), by and between Citinational Buckeye Building Co and City National Bank.
(z)	Lease dated November 19, 2003 between TPG Plaza Investments and City National Bank (Portions of this exhibit have been omitted pursuant to a request for confidential treatment).
21	Subsidiaries of the Registrant
23	Consent of KPMG LLP
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Acting Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.0	Certification of the Chief Executive Officer and Acting Chief Financial Officer 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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Management contract or compensatory plan or arrangement

(b)

The registrant filed a report, dated October 15, 2003, on Form 8-K under items 9 and 12 regarding the financial results for the quarter and nine months ended September 30, 2002.

The Registrant filed a report, dated November 20, 2003, on Form 8-K under items 5 and 9 concerning the execution of a new lease between TPG Plaza Investments and City National Bank.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITY NATIONAL CORPORATION
(Registrant)

By /s/ RUSSELL D. GOLDSMITH

Russell D. Goldsmith,
Chief Executive Officer

March 10, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RUSSELL D. GOLDSMITH Russell D. Goldsmith (Principal Executive Officer)	Vice Chairman/ Chief Executive Officer and Director	March 10, 2004
/s/ STEPHEN D. MCAVOY Stephen D. McAvoy (Principal Financial Officer & Principal Accounting Officer)	Acting Chief Financial Officer and Controller	March 10, 2004
/s/ BRAM GOLDSMITH Bram Goldsmith	Chairman of the Board and Director	March 10, 2004
/s/ GEORGE H. BENTER, JR. George H. Benter, Jr.	President and Director	March 10, 2004
/s/ RICHARD L. BLOCH Richard L. Bloch	Director	March 10, 2004
/s/ KENNETH L. COLEMAN Kenneth L. Coleman	Director	March 10, 2004

/s/ MICHAEL L. MEYER	Director	March 10, 2004

Michael L. Meyer		
/s/ RONALD L. OLSON	Director	March 10, 2004
Ronald L. Olson		
/s/ PETER M. THOMAS	Director	March 10, 2004
Peter M. Thomas		
/s/ ROBERT H. TUTTLE	Director	March 10, 2004
Robert H. Tuttle		
/s/ ANDREA L. VAN DE KAMP	Director	March 10, 2004
Andrea L. Van de Kamp		
/s/ KENNETH ZIFFREN	Director	March 10, 2004
Kenneth Ziffren		

21

FINANCIAL HIGHLIGHTS

Dollars in thousands, except per share amounts	2003	2002	Increase (Decrease) Amount
FOR THE YEAR			
Net income	$ 186,677	$ 183,100	$ 3,577
Net income per common share, basic	3.84	3.69	0.15
Net income per common share, diluted	3.72	3.56	0.16
Dividends per common share	0.97	0.78	0.19
AT YEAR END			
Assets	$ 13,018,242	$ 11,870,392	$ 1,147,850
Deposits	10,937,063	9,839,698	1,097,365
Loans	7,882,742	7,999,470	(116,728)
Securities	3,365,654	2,226,656	1,138,998
Shareholders' equity	1,219,256	1,109,959	109,297
Book value per common share	24.85	22.66	2.19
AVERAGE BALANCES			
Assets	$ 12,146,932	$ 10,891,575	$ 1,255,357
Deposits	10,045,267	8,639,546	1,405,721
Loans	7,729,150	7,822,653	(93,503)
Securities	2,944,443	1,943,910	1,000,533
Shareholders' equity	1,147,477	1,049,393	98,084
SELECTED RATIOS			
Return on average assets	1.54%	1.68%	(0.14)%

Dollars in thousands, except per share amounts	2003	2002	Increase (Decrease) Amount
Return on average shareholders' equity	16.27	17.45	(1.18)
Tier 1 leverage ratio	7.48	7.55	(0.07)
Total risk-based capital ratio	14.86	14.26	0.60
Dividend payout ratio per share	25.33	21.10	4.23
Net interest margin	4.74	5.30	(0.56)
Efficiency ratio	52.15	49.20	2.95
AT YEAR END			
Assets under management	$ 13,610,756	$ 7,407,003	$ 6,203,753
Assets under management or administration	28,835,273	19,513,299	9,321,974

A-1

SELECTED FINANCIAL INFORMATION

Dollars in thousands, except per share data	2003	2002	2001	2000	1999
	As of or for the year ended December 31,				
Statement of Operations Data:					
Interest income	$ 575,725	$ 609,700	$ 625,248	$ 646,288	$ 470,446
Interest expense	61,110	94,444	191,094	239,772	148,441
Net interest income	514,615	515,256	434,154	406,516	322,005
Provision for credit losses	29,000	67,000	35,000	21,500	
Noninterest income	177,225	146,293	132,384	109,484	87,212
Noninterest expense	364,178	331,646	313,395	294,770	241,803
Minority interest expense	4,039	945			
Income before taxes	294,623	261,958	218,143	199,730	167,414
Income taxes	107,946	78,858	71,973	68,070	59,307
Net income	$ 186,677	$ 183,100	$ 146,170	$ 131,660	$ 108,107
Adjusted net income (1)	$ 186,677	$ 183,100	$ 159,038	$ 142,883	$ 113,278
Per Share Data:					
Net income per share, basic	3.84	3.69	3.05	2.79	2.37
Net income per share, diluted	3.72	3.56	2.96	2.72	2.30
Adjusted net income per share, diluted (1)	3.72	3.56	3.22	2.95	2.41
Cash dividends declared	0.97	0.78	0.74	0.70	0.66
Book value per share	24.85	22.66	18.50	15.61	12.58
Shares used to compute income per share, basic	48,643	49,563	47,896	47,178	45,683
Shares used to compute income per share, diluted	50,198	51,389	49,376	48,393	46,938
Balance Sheet Data At Period End:					
Assets	$ 13,018,242	$ 11,870,392	$ 10,176,316	$ 9,096,669	$ 7,213,619

	As of or for the year ended December 31,				
Deposits	10,937,063	9,839,698	8,131,202	7,408,670	5,669,409
Loans	7,882,742	7,999,470	7,159,206	6,527,145	5,490,669
Securities	3,365,654	2,226,656	1,814,839	1,547,844	1,102,092
Interest-earning assets	11,985,678	10,858,337	9,447,311	8,286,067	6,677,475
Shareholders' equity	1,219,256	1,109,959	890,577	743,648	571,646
Balance Sheet Data Average Balances:					
Assets	$ 12,146,932	$ 10,891,575	$ 9,328,512	$ 8,426,129	$ 6,488,834
Deposits	10,045,267	8,639,546	7,067,984	6,334,846	4,809,800
Loans	7,729,150	7,822,653	6,713,315	6,236,334	4,822,254
Securities	2,944,443	1,943,910	1,637,321	1,347,145	1,050,716
Interest-earning assets	11,159,034	9,996,998	8,520,242	7,698,884	5,985,018
Shareholders' equity	1,147,477	1,049,393	825,344	667,618	564,091
Asset Quality:					
Nonaccrual loans	$ 42,273	$ 71,357	$ 38,563	$ 61,986	$ 25,288
ORE		670	10	522	1,413
Total nonaccrual loans and ORE	$ 42,273	$ 72,027	$ 38,573	$ 62,508	$ 26,701
Performance Ratios:					
Return on average assets	1.54%	1.68%	1.57%	1.56%	1.67%
Return on average shareholders' equity	16.27	17.45	17.71	19.72	19.16
Return on average assets adjusted (1)	1.54	1.68	1.70	1.70	1.75
Return on average shareholders' equity adjusted (1)	16.27	17.45	19.27	21.40	19.82
Net interest spread	4.29	4.65	3.95	3.81	4.12
Net interest margin	4.74	5.30	5.26	5.44	5.56
Average shareholders' equity to average assets	9.45	9.63	8.85	7.92	8.69
Dividend payout ratio, per share	25.33	21.10	24.26	24.95	27.91
Adjusted dividend payout ratio per share (1)	25.33	21.10	22.30	23.00	26.64
Efficiency ratio (2)	52.15	49.20	54.08	55.76	57.58
Efficiency ratio adjusted (1) (2)	52.15	49.20	51.86	53.64	56.35
Asset Quality Ratios:					
Nonaccrual loans to total loans	0.54%	0.89%	0.54%	0.95%	0.46%
Nonaccrual loans and ORE to total loans and ORE	0.54	0.90	0.54	0.96	0.49
Allowance for credit losses to total loans	2.11	2.06	2.00	2.07	2.44
Allowance for credit losses to nonaccrual loans	392.65	230.53	370.46	218.49	530.20
Net charge-offs to average loans	(0.36)	(0.69)	(0.41)	(0.48)	(0.10)

(1) Adjusted balances reflect the elimination of goodwill amortization of $12,868, $11,223, and $5,171 for the years ended December 31, 2001, 2000, and 1999, respectively, to reflect all periods on a comparable basis.

(2) The efficiency ratio is defined as noninterest expense excluding Other Real Estate ("ORE") expense divided by total revenue (net interest income on a tax-equivalent basis and noninterest income).

MANAGEMENT'S DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Certain accounting policies involve significant judgments and assumptions by management which have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances.

Management believes the following are critical accounting policies that require the most significant judgments and estimates used in the preparation of its consolidated financial statements:

Accounting for securities

All securities other than trading securities are classified as available-for-sale and are valued at fair value. Trading securities are valued at fair value with any unrealized gains or losses included in income. Unrealized gains or losses on securities available-for-sale are excluded from net income but are included in comprehensive income net of taxes. Premiums or discounts on securities available-for-sale are amortized or accreted into income using the interest method. Realized gains or losses on sales of securities available-for-sale are recorded using the specific identification method.

If available, quoted market prices provide the best indication of value. If quoted market prices are not available for fixed maturity securities, the Company discounts the expected cash flows using market interest rates commensurate with the credit quality and maturity of the investments. Alternatively, matrix or model pricing may be used to determine an appropriate fair value. The determination of market or fair value considers various factors, including time value and volatility factors; price activity for equivalent instruments; counterparty credit quality; and the potential impact on market prices or fair value of liquidating the Company's positions in an orderly manner over a reasonable period of time under current market conditions. Changes in assumptions could affect the fair values of investments.

For the substantial majority of our portfolios, fair values are determined based upon externally verifiable model inputs and quoted prices. All financial models that are used for updating the Company's published financial statements, or for independent risk monitoring, must be validated and periodically reviewed by qualified personnel. Using this information, the Company conducts regular reviews to assess whether other-than-temporary impairment exists. Deteriorating economic conditions-global, regional, or related to specific issuers-could adversely affect these values. The Company considers such factors as the length of time and the extent to which the market value has been less than cost. If an other-than-temporary impairment is determined to exist, the impairment is included in income.

Accounting for the allowance for credit losses

The provision for credit losses charged to operations reflects management's judgment of the adequacy of the allowance for credit losses and is determined through quarterly analytical reviews of the loan portfolio, problem loans and consideration of such other factors as the Company's loan loss experience, trends in problem loans, concentrations of credit risk, underlying collateral values, and

current economic conditions, as well as the results of the Company's ongoing credit examination process and that of its regulators. As conditions change, our level of provisioning and allowance for credit losses may change.

Larger balance, non-homogenous exposures representing significant individual credit exposures are evaluated based upon the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantors; and, if appropriate, the realizable value of any collateral. The allowance for credit losses attributed to these loans is established via a process that begins with estimates of probable loss inherent in the portfolio based upon various statistical analyses. These analyses consider historical and projected default rates and loss severities; internal risk ratings; geographic, industry, and other environmental factors; and model imprecision. Management also considers overall portfolio indicators, including trends in internally risk-rated exposures, classified exposures, cash-basis loans, and historical and forecasted write-offs; and a review of industry, geographic, and portfolio concentrations, including current developments within those segments. In addition, management considers the current business strategy and credit process, including credit limit setting and compliance, credit approvals, loan underwriting criteria and loan workout procedures.

Within the allowance for credit losses, amounts are specified for larger-balance, non-homogeneous loans that have been individually determined to be impaired. These amounts consider all available evidence, including, as appropriate, the present value of the expected future cash flows discounted in the loan's contractual effective rate, the secondary market value of the loan and the fair value of collateral.

Each portfolio of smaller balance, homogeneous loans, including residential first mortgage, installment, revolving credit and most other consumer loans, is collectively evaluated for loss potential. The allowance for credit losses is established via a process that begins with estimates of probable losses inherent in the portfolio, based upon various statistical analyses. These include migration analysis, in which historical delinquency and credit loss experience is applied to the current aging of the portfolio, together with analyses that reflect current trends and conditions. Management also considers overall portfolio indicators, including historical credit losses, delinquent, non-performing and classified loans, and trends in volumes and terms of loans, an evaluation of overall credit quality and the credit process, including lending policies and procedures, economic, geographical, product, and other environmental factors; and model imprecisions.

Accounting for derivatives and hedging activities

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). SFAS 133 requires that all derivatives be recorded on the balance sheet at their fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction.

For fair value hedges, in which derivatives hedge the fair value of assets and liabilities, changes in the fair value of derivatives will be reflected in current earnings, together with changes in the fair value of the related hedged item. For effective cash flow hedges, in which derivatives hedge the variability of cash flows related to floating rate assets, liabilities or forecasted transactions, changes in the derivatives' fair value will not be included in current earnings but will be reported as other comprehensive income. These changes in fair value will be included in earnings of future periods when earnings will be affected by the variability of the hedged cash flows. To the extent these derivatives are not effective, changes in their fair values will be immediately included in current earnings.

The Company uses "plain vanilla" interest rate swaps to mitigate risks associated with changes 1) to the fair value of certain fixed-rate deposits and borrowings and 2) to certain cash flows related to future interest payments on variable rate loans. The positive mark-to-market on the fair value hedges

has resulted in the recognition of other assets and an increase in hedged deposits and borrowings. The positive mark-to-market on cash flow hedges of variable-rate loans has resulted in the recognition of other assets and comprehensive income.

Fair values are determined from verifiable third-party sources who have considerable experience with the interest-rate swap market.

The periodic net settlement of these interest-rate risk management instruments is recorded as an adjustment to net interest income.

Accounting for stock options

The Company applies APB Opinion No. 25 in accounting for the plans and, accordingly, no compensation cost has been recognized for its stock options 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 using the Black Scholes option-pricing model, the Company's proforma net income would have been reduced to the proforma amounts indicated below:

Dollars in thousands, except for per share amounts	**2003**	**2002**	**2001**
Net income, as reported	$ 186,677	$ 183,100	$ 146,170
Proforma net income	180,260	172,935	138,537

Dollars in thousands, except for per share amounts	2003	2002	2001
Net income per share, basic, as reported	3.84	3.69	3.05
Proforma net income per share, basic,	3.71	3.49	2.89
Net income per share, diluted, as reported	3.72	3.56	2.96
Proforma net income per share, diluted,	3.59	3.37	2.81
Percentage reduction in net income per share, diluted	3.5%	5.3%	5.1%

The Black Scholes option-pricing model requires assumptions on expected life of the options that is 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; dividend yield and 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.

During the latter part of the second quarter of 2003, stock-based compensation performance awards for 2002 were granted to colleagues of the Company. These performance awards for the first time included restricted stock grants with fewer stock options, which reduced the total number of shares awarded but better aligned the interests of shareholders and colleagues. The Company recorded $905,170 in expense for restricted stock awards for 2003 out of the original $7,604,214 grant. This change in the awards resulted in the lower percentage reduction in proforma net income from reported net income in 2003 compared to prior years.

OVERVIEW

The Corporation is the holding company for the Bank. References to the "Company" mean the Corporation and the Bank together. The financial information presented herein includes the account of the Corporation, its non-bank subsidiaries, the Bank, and the Bank's wholly owned subsidiaries. All material transactions between these entities are eliminated.

See "Cautionary Statement for Purposes of the 'Safe Harbor' Provision of the Private Securities Litigation Reform Act of 1995," on pages A-34 and A-35 in connection with "forward looking" statements included in this report.

Over the last three years, the Company's assets, loans, and deposits have grown by 43 percent, 21 percent, and 48 percent, respectively. The growth primarily reflects the successful sales efforts of the Company's colleagues. The growth was augmented however, by the bank acquisition closed by the Company over that same period. The Corporation regularly evaluates, and holds discussions with, various potential acquisition candidates.

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 manage assets of approximately $8.5 billion as of December 31, 2003. 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 is being amortized over 20 years, and $21.5 million in goodwill.

On February 28, 2002, the Corporation completed its acquisition of Civic BanCorp ("Civic"). The Corporation paid consideration equal to $123.5 million (including the consideration for stock options), 53.5 percent of which was paid in the Corporation's common stock, and 46.5 percent of which was paid in cash. Civic had total assets, loans, and deposits of $502.8 million, $368.4 million, and $438.5 million, respectively at the date of acquisition. At May 31, 2002, the Bank sold two branches acquired from Civic at a premium which reduced goodwill for the Civic acquisition. The acquisition resulted in the recording of goodwill of $71.2 million and core deposit intangibles of $16.0 million.

On February 13, 2003, the Corporation issued $225.0 million of 5.125 percent Senior Notes due 2013 in a private placement. A like amount of exchange notes were subsequently registered pursuant to the Securities Act of 1933 in April 2003 and 100 percent of the Senior Notes were exchanged for the registered notes in an exchange offering with the Senior Notes which closed on May 29, 2003.

On January 22, 2003, the Board of Directors authorized a one-million-share stock buyback program. A total of 750,100 shares were repurchased under this program at an average cost of $42.47 per share, leaving 249,900 shares available for repurchase. No shares were repurchased in the fourth quarter of 2003. On July 15, 2003, the Board of Directors authorized the repurchase of 500,000 additional shares of

City National Corporation stock, following completion of the Company's January 22, 2003 buyback initiative. The shares purchased under the buyback programs will be reissued for acquisitions, upon the exercise of stock options, and for other general corporate purposes. In January 2004, 420,900 shares were repurchased at an average cost of $58.77 per share and in February 2004, 187,300 shares were repurchased at an average cost of $59.96 per share. At February 29, 2004, 141,700 shares were available for repurchase.

The Corporation paid dividends of $0.97 per share of common stock in 2003 and $0.78 per share of common stock in 2002. On January 21, 2004, the Board of Directors authorized a regular quarterly cash dividend on common stock at an increased rate of $0.32 per share to shareholders of record on February 4, 2004 payable on February 17, 2004. This reflects a 14.3 percent increase over the $0.28 paid in November 2003.

HIGHLIGHTS

Consolidated net income for 2003 was $186.7 million, or $3.72 per diluted common share, compared with $183.1 million, or $3.56 per diluted common share, in 2002. The increase in net income included a 12 percent increase in income before income taxes primarily attributable to a lower provision for credit losses. It also included the impact of a higher income tax rate.

The provision for credit losses of $29.0 million for 2003 was down 57 percent from $67.0 million for the prior year as a result of improved credit quality.

Nonaccrual loans for 2003 fell to $42.3 million, a 41 percent decline from December 31, 2002.

Net loan charge-offs for 2003 were $27.5 million, a decrease of 49 percent from $54.1 million for 2002.

Average deposits rose during 2003 to $10.0 billion, an increase of 16 percent over $8.6 billion for 2002.

Average core deposits for 2003 were up 22 percent from 2002.

Average securities for 2003 were up 51 percent from 2002 due to the significantly higher deposit balances. The average duration of the total available-for-sale securities portfolio at December 31, 2003 was 3.4 years.

Total assets at December 31, 2003 were $13.0 billion, compared with $11.9 billion at December 31, 2002.

Total average assets increased to $12.1 billion in 2003 from $10.9 billion in 2002, an increase of $1.2 billion, or 11 percent, primarily due to the higher deposits.

The return on average assets in 2003 was 1.54 percent, compared with 1.68 percent in 2002 reflecting average assets growing faster than net income. The return on average shareholders' equity declined to 16.27 percent, compared with 17.45 percent for the prior year. The lower return on average shareholders' equity for the year compared with the prior year was due primarily to a higher level of shareholders' equity from retained net income and from the exercise of stock options, net of treasury share repurchases.

Average loans for all of 2003 were $93.5 million lower than 2002 due to modest loan demand in 2003 and the efforts of the Company to improve credit quality.

Net interest income on a fully taxable-equivalent basis for 2003 was $529.0 million compared with $530.1 million for 2002.

Noninterest income rose $30.9 million, or 21 percent, in 2003 over 2002. This increase was, to a significant extent, due to the acquisition of Convergent Capital Management ("CCM") on April 1, 2003.

The Company's income tax rate increased from 30.1 percent in 2002 to 36.6 percent in 2003, reflecting changes in the mix of tax rates applicable to income before tax and the absence of certain tax benefits recognized in 2002, including benefits related to the Company's real estate investment trusts ("REITs").

OUTLOOK

Management continues to expect net income per diluted common share for 2004 to be approximately 7 to 9 percent higher than net income per diluted common share for 2003, based on current economic conditions and the business indicators below:

Average loan growth	6 to 9 percent
Average deposit growth	6 to 9 percent
Net interest margin	4.50 to 4.70 percent
Provision for credit losses	$20 million to $30 million
Noninterest income growth	6 to 8 percent
Noninterest expense growth	8 to 10 percent
Effective tax rate	36 to 38 percent

RESULTS OF OPERATIONS

Operations Summary

Following is an operations summary on a fully taxable-equivalent basis for each of the last five years ended December 31.

Dollars in thousands except per share amounts	**Year Ended 2003**	**Increase (Decrease) Amount**	**%**	**Year Ended 2002**	**Increase (Decrease) Amount**	**%**	**Year Ended December 31, 2001**	**2000**	**1999**
Interest income (1)	$ 590,078	$ (34,426)	(6)	$ 624,504	$ (14,410)	(2)	$ 638,914	$ 658,874	$ 481,113
Interest expense	61,110	(33,334)	(35)	94,444	(96,650)	(51)	191,094	239,772	148,441
Net interest income	528,968	(1,092)	(0)	530,060	82,240	18	447,820	419,102	332,672
Provision for credit losses	29,000	(38,000)	(57)	67,000	32,000	91	35,000	21,500	
Noninterest income	177,225	30,932	21	146,293	13,909	11	132,384	109,484	87,212
Noninterest expense:									
Staff expense	217,494	21,842	11	195,652	25,288	15	170,364	159,782	133,935
Other expense	146,684	10,690	8	135,994	(7,037)	(5)	143,031	134,988	107,868
Total	364,178	32,532	10	331,646	18,251	6	313,395	294,770	241,803
Minority interest expense	4,039	3,094	327	945	945	N/M			
Income before income taxes	308,976	32,214	12	276,762	45,898	20	231,809	212,316	178,081
Income taxes	107,946	29,088	37	78,858	6,885	10	71,973	68,070	59,307
Less: adjustments (1)	14,353	(451)	(3)	14,804	1,138	8	13,666	12,586	10,667
Net income	$ 186,677	$ 3,577	2	$ 183,100	$ 37,875	26	$ 146,170	$ 131,660	$ 108,107

		Increase (Decrease)			Increase (Decrease)				
Adjusted net income (2)	$ 186,677	$ 3,577	2	$ 183,100	$ 24,062	15	$ 159,038	$ 142,883	$ 113,278
Net income per share, diluted	$ 3.72	$ 0.16	4	$ 3.56	$ 0.60	20	$ 2.96	$ 2.72	$ 2.30
Adjusted net income per share diluted	$ 3.72	$ 0.16	11	$ 3.56	$ 0.34	9	$ 3.22	$ 2.95	$ 2.41

(1) Includes amounts to convert nontaxable income to fully taxable-equivalent yield. To compare 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.

(2) Adjusted balances reflect the elimination of goodwill amortization of $12,868, $11,223, and $5,171 for the years ended December 31, 2001, 2000, and 1999, respectively, to reflect all periods on a comparable basis.

Net Interest Income

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning assets.

The following table shows average balances, interest income and yields for the last five years.

Net Interest Income Summary

	2003			2002		
Dollars in thousands	**Average Balance**	**Interest income/ expense (1)**	**Average interest rate**	**Average Balance**	**Interest income/ expense (1)**	**Average interest rate**
Assets						
Earning assets (2)						
Loans:						
Commercial	$ 3,319,328	$ 173,785	5.24%	$ 3,580,293	$ 215,388	6.02%
Real estate mortgage	1,901,491	124,343	6.54	1,831,125	131,404	7.18
Residential first mortgages	1,781,006	107,005	6.01	1,704,571	115,757	6.79
Real estate construction	647,851	33,593	5.19	634,074	35,221	5.55
Installment	79,474	5,971	7.51	72,590	6,335	8.73
Total loans (3)	7,729,150	444,697	5.75	7,822,653	504,105	6.44
Due from banks-interest bearing	66,755	604	0.90	24,588	290	1.18
Securities available-for-sale	2,944,443	140,381	4.77	1,943,910	116,898	6.01
	386,388	4,185	1.08	171,809	2,759	1.61

	2003			2002		
Federal funds sold and securities purchased under resale agreements						
Trading account securities	32,298	211	0.65	34,038	452	1.33
Total interest-earning assets	11,159,034	590,078	5.29	9,996,998	624,504	6.25
Allowance for credit losses	(171,082)			(158,939)		
Cash and due from banks	436,870			430,085		
Other nonearning assets	722,110			623,431		
Total assets	$ 12,146,932			$ 10,891,575		
Liabilities and Shareholder's Equity						
Interest-bearing deposits:						
Interest checking accounts	$ 652,238	1,218	0.19	$ 616,158	1,546	0.25
Money market accounts	3,205,041	26,078	0.81	2,517,341	34,161	1.36
Savings deposits	285,584	614	0.21	225,217	2,016	0.90
Time deposits under $100,000	209,520	3,521	1.68	226,042	5,368	2.37
Time deposits $100,000 and over	1,003,012	14,377	1.43	1,239,576	27,621	2.23
Total interest bearing deposits	5,355,395	45,808	0.86	4,824,334	70,712	1.47
Federal funds purchased and securities sold under repurchase agreements	147,883	1,538	1.04	199,110	3,033	1.52
Other borrowings	645,578	13,764	2.13	879,145	20,699	2.35
Total interest bearing liabilities	6,148,856	61,110	0.99	5,902,589	94,444	1.60
Noninterest bearing deposits	4,689,872			3,815,212		
Other liabilities	160,727			124,381		
Shareholders' equity	1,147,477			1,049,393		
Total liabilities and shareholders' equity	$ 12,146,932			$ 10,891,575		
Net interest spread			4.29%			4.65%
Fully taxable equivalent net interest income		$ 528,968			$ 530,060	
Net interest margin			4.74%			5.30%

(1) Fully taxable-equivalent basis. 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.

(2) Includes average nonaccrual loans of $66,675, $58,707, $45,167, $40,431, and $22,676 for 2003, 2002, 2001, 2000, and 1999, respectively.

(3) Loan income includes loan fees of $22,573, $24,762, $22,753, $20,351, and $17,662 for 2003, 2002, 2001, 2000, and 1999, respectively.

2001			2000			1999		
Average Balance	**Interest income/ expense (1)**	**Average interest rate**	**Average Balance**	**Interest income/ expense (1)**	**Average interest rate**	**Average Balance**	**Interest income/ expense (1)**	**Average interest rate**
$ 3,127,252	$ 246,332	7.88%	$ 3,189,457	$ 294,598	9.24%	$ 2,560,701	$ 219,460	8.57%
1,582,853	130,268	8.23	1,336,443	123,444	9.24	851,396	75,956	8.92
1,417,443	102,036	7.20	1,235,106	89,973	7.28	1,069,522	77,330	7.23
513,184	38,676	7.54	409,281	42,362	10.35	288,084	27,496	9.54
72,583	6,844	9.43	66,047	6,118	9.26	52,551	5,208	9.91
6,713,315	524,156	7.81	6,236,334	556,495	8.92	4,822,254	405,450	8.41
18,707	436	2.33	3,826	12	0.31	281	1	0.36
1,637,321	109,070	6.66	1,347,145	95,938	7.12	1,050,716	70,205	6.68
107,247	3,298	3.08	46,298	2,809	6.07	44,637	2,381	5.33
43,652	1,954	4.48	65,281	3,620	5.55	67,130	3,076	4.58
8,520,242	638,914	7.50	7,698,884	658,874	8.56	5,985,018	481,113	8.04
(136,981)			(139,701)			(139,973)		
399,978			341,947			295,432		
545,273			524,999			348,357		
$ 9,328,512			$ 8,426,129			$ 6,488,834		
$ 554,641	2,114	0.38	$ 540,765	2,780	0.51	$ 411,350	2,065	0.50
1,552,404	44,162	2.84	1,317,186	47,404	3.60	989,888	29,385	2.97
247,280	7,064	2.86	237,024	10,040	4.24	200,579	7,547	3.76
245,350	11,397	4.65	260,115	14,770	5.68	202,387	9,658	4.77
1,469,874	68,513	4.66	1,377,406	80,733	5.86	928,692	44,559	4.80
4,069,549	133,250	3.27	3,732,496	155,727	4.17	2,732,896	93,214	3.41
326,889	13,218	4.04	264,013	16,269	6.16	232,350	11,019	4.74
990,779	44,626	4.50	1,047,622	67,776	6.47	818,809	44,208	5.40
5,387,217	191,094	3.55	5,044,131	239,772	4.75	3,784,055	148,441	3.92
2,998,435			2,602,350			2,076,904		
117,516			112,030			63,784		
825,344			667,618			564,091		
$ 9,328,512			$ 8,426,129			$ 6,488,834		
		3.95%			3.81%			4.12%
	$ 447,820			$ 419,102			$ 332,672	
		5.26%			5.44%			5.56%

Taxable-equivalent net interest income totaled $529.0 million in 2003, compared with $530.1 million for 2002. The decrease in net interest income was due to lower interest rates and lower commercial loan balances. Included in 2003 was $31.5 million from the receipt of net settlements of interest rate risk management instruments compared to $32.2 million in 2002. Interest income recovered on nonaccrual and charged-off loans included above was $2.7 million in 2003, compared with $2.3 million for 2002.

The fully taxable-equivalent net interest margin in 2003 was 4.74 percent, compared with 5.30 percent for 2002. The decrease is due to lower yields on interest-earning assets.

Net interest income is impacted by the volume, mix, and rate of interest-earning assets and interest-bearing liabilities. The following table shows changes in net interest income between 2003 and 2002 as well as between 2002 and 2001 broken down between volume and rate.

Changes in Net Interest Income

	2003 vs 2002			**2002 vs 2001**		
	Increase (decrease) due to			**Increase (decrease) due to**		
Dollars in thousands fully taxable equivlent basis	**Volume**	**Rate**	**Net increase (decrease)**	**Volume**	**Rate**	**Net increase (decrease)**
Interest earned on:						
Loans	$ (5,963)	$ (53,445)	$ (59,408)	$ 79,500	$ (99,551)	$ (20,051)
Due from banks-interest bearing	397	(83)	314	111	(257)	(146)
Securities available-for-sale	52,513	(29,030)	23,483	19,138	(11,310)	7,828
Trading account securities	(194)	(47)	(241)	(358)	(1,144)	(1,502)
Federal funds sold and securities purchased under resale agreements	2,570	(1,144)	1,426	1,459	(1,998)	(539)
Total interest-earning assets	49,323	(83,749)	(34,426)	99,850	(114,260)	(14,410)
Interest paid on:						
Interest checking	81	(409)	$ (328)	214	(782)	(568)
Money market deposits	7,905	(15,988)	(8,083)	19,555	(29,556)	(10,001)
Savings deposits	442	(1,844)	(1,402)	(581)	(4,467)	(5,048)
Other time deposits	(5,061)	(10,030)	(15,091)	(10,304)	(36,617)	(46,921)
Other borrowings	(5,756)	(2,674)	(8,430)	(9,107)	(25,005)	(34,112)
Total interest-bearing liabilities	(2,389)	(30,945)	(33,334)	(223)	(96,427)	(96,650)
	$ 51,712	$ (52,804)	$ (1,092)	$ 100,073	$ (17,833)	$ 82,240

Average loans for 2003 were $7,729.2 million, $93.5 million or 1.0 percent lower than 2002 due to modest loan demand and the efforts of the Company to improve credit quality. Compared with 2002 averages, commercial loans decreased 7.3 percent to $3,319.3 million; residential first mortgage loans rose 4.5 percent to $1,781.0 million, real estate mortgage loans rose 3.8 percent to $1,901.5 million; and real estate construction loans rose 2.2 percent to $647.9 million.

Average securities available-for-sale were $2,944.4 million, an increase of $1,000.5 million, or 51.5 percent, between 2002 and 2003 as deposit growth exceeded loan demand.

Total average core deposits rose to $9,042.3 million, an increase of 22.2 percent over 2002. Average core deposits represented 90.0 percent of the total average deposit base for the year. Average interest-bearing core deposits increased to $4,352.4 million in 2003 from $3,584.8 million in 2002, an increase of $767.6 million, or 21.4 percent. Average noninterest-bearing deposits increased to $4,689.9 million in 2003 from $3,815.2 million in 2002, an increase of $874.7 million, or 22.9 percent. New clients and higher existing client balances maintained as deposits to pay for services contributed to the growth of deposits. Average time deposits in denominations of $100,000 or more decreased $236.6 million, or 19.1 percent, between 2002 and 2003.

For 2002, taxable-equivalent net interest income totaled $530.1 million, an increase of $82.3 million, or 18.4 percent, from 2001. The increase in net interest income was due to strong average loan and average core deposit growth. Included in 2002 was $32.2 million from the receipt to net settlements of interest rate risk management instruments compared to $15.0 million in 2001. Also, interest income recovered on nonaccrual and charged-off loans included above was $2.3 million in 2002, compared with $4.3 million for 2001.

Average loans rose to $7,822.7 million in 2002, an increase of 16.5 percent over the prior year. The year-over-year growth in average loans was driven primarily by increases in commercial, real estate mortgage, residential first mortgage, and construction loans. Compared with prior-year averages, commercial loans rose 14.5 percent to $3,580.3 million from $3,127.3 million; real estate mortgage loans rose 15.7 percent to $1,831.1 million from $1,582.9 million; residential first mortgage loans rose 20.3 percent to $1,704.6 million from $1,417.4 million; and construction loans rose 23.6 percent to $634.1 million from $513.2 million.

Average securities available-for-sale were $1,943.9 million, an increase of $306.6 million, or 18.7 percent, between 2001 and 2002 as deposit growth exceeded increased loan demand.

Total average core deposits rose to $7,400.0 million in 2002, an increase of 32.2 percent over 2001. Average core deposits represented 85.7 percent of the total average deposit base for 2002. Average interest-bearing core deposits increased to $3,584.8 million in 2002 from $2,599.7 million in 2001, an increase of $985.1 million, or 37.9 percent. Average noninterest-bearing deposits increased to $3,815.2 million in 2002 from $2,998.4 million in 2001, an increase of $816.8 million, or 27.2 percent. New clients, the acquisition of Civic and higher existing client balances maintained as deposits to pay for services contributed to the growth of deposits. Average time deposits in denominations of $100,000 or more decreased $230.3 million or, 15.7 percent, between 2001 and 2002.

Provision for Credit Losses

The provision for credit losses primarily reflects the levels of net loan charge-offs and nonaccrual loans, changes in the economic environment during the period, as well as management's ongoing assessment of the credit quality and growth of the loan portfolio. In 2003, 2002 and 2001, net charge-offs totaled $27.5 million, $54.1 million and $27.6 million, respectively. In each of these years, nonaccrual loans at year-end totaled $42.3 million, $71.4 million and $38.6 million, respectively.

The Company recorded provisions for credit losses of $29.0 million in 2003, $67.0 million in 2002, and $35.0 million in 2001. See "Balance Sheet Analysis Asset Quality Allowance for Credit Losses."

Noninterest Income

The Company continues to emphasize fee income growth. Noninterest income in 2003 totaled $177.2 million, an increase of $30.9 million, or 21.1 percent, from 2002, which increased $13.9 million, or 10.5 percent, from 2001. Noninterest income represented 25.6 percent of total revenues in 2003, compared with 22.1 percent and 23.4 percent in 2002 and 2001, respectively.

A breakdown of noninterest income by category is reflected below.

Analysis of Changes in Noninterest Income

Dollars in millions	2003	Increase (Decrease) Amount	%	2002	Increase (Decrease) Amount	%	2001

		Increase (Decrease)			Increase (Decrease)		
Trust and investment fee revenue	$ 83.7	22.4	36.5	$ 61.3	2.7	4.6	$ 58.6
Cash mangement and deposit transaction charges	42.7	$ 2.0	4.9	40.7	$ 9.8	31.7	30.9
International services	19.3	1.0	5.5	18.3	3.3	22.0	15.0
Bank owned life insurance	3.0	0.1	3.4	2.9			2.9
All other income	25.4	3.7	17.1	21.7	1.4	6.9	20.3
Total core	174.1	29.2	20.2	144.9	17.2	13.5	127.7
Gain (loss) on sale or writedown of loans and assets/debt repurchase	0.1	1.7	106.3	(1.6)	(3.0)	(214.3)	1.4
Gain on sale of securities	3.0			3.0	(0.3)	(9.1)	3.3
Total	$ 177.2	$ 30.9	21.1	$ 146.3	$ 13.9	10.5	$ 132.4

Trust and investment services income, which includes trust fees, commissions and mark-ups on securities transactions with clients, and fees on mutual funds, increased in 2003, compared with 2002, by $22.4 million, or 36.5 percent. The acquisition of CCM which closed on April 1, 2003, new business aided by strong relative investment performance, and higher market values contributed to the increase. Trust and investment fee revenue increased by $2.7 million, or 4.6 percent from 2001 to 2002. At December 31, 2003, the Company had $28.8 billion in assets under management or administration, which included $13.6 billion in assets under management, compared with $19.5 billion and $7.4 billion, respectively, at December 31, 2002. The increase in assets under management in 2003 is primarily attributable to the acquisition of CCM.

Cash management and deposit transaction fees increased $2.0 million, or 4.9 percent, in 2003, compared with a 31.7 percent increase in 2002. The increases in both 2003 and 2002 were the result of strong growth in deposits, higher sales of cash management products, and the impact of a reduction in the earnings credit on analyzed deposit accounts for clients who chose to pay fees rather than increase deposit balances to pay for services. This reduction had a more significant impact in 2002 than in 2003.

International services fee income for 2003 increased $1.0 million, or 5.5 percent, over 2002, compared with a 22.0 percent increase in 2002. The increase in 2003 is primarily due to higher foreign exchange income while trade-finance revenue was down from 2002. For 2002, international services fee income of $18.3 million increased $3.3 million, or 22.0 percent, over 2001 partially due to additional entertainment and middle-market commercial international business.

Other income increased $3.7 million in 2003 over 2002, or 17.1 percent, partially from $1.0 million of higher participating mortgage loan ("PML") fees and $1.2 million of fees received from the sale of certain merchant credit card business. Other income increased $1.4 million in 2002 over 2001, or 6.9 percent, primarily from interest on loans available-for-sale.

Gain (loss) on the sale or writedown of loans and assets/debt repurchase for 2003 included a gain of $0.1 million relating to the sales of other assets. In 2002, $5.1 million related to loss on sale or writedown of loans classified as available-for-sale and $3.5 million in gains relating to sales of other assets. In 2001, $0.6 million related to gains on sale of assets and $0.8 million related to gain on early retirement of debt.

Gains on the sale of securities available-for-sale for both 2003 and 2002 totaled $3.0 million and in 2001 totaled $3.3 million.

Noninterest Expense

Noninterest expense was $364.2 million in 2003, an increase of $32.6 million, or 9.8 percent, from 2002, which increased $18.2 million, or 5.8 percent, from 2001. Expenses in 2003 grew primarily because of the acquisition of CCM, the issuance of restricted stock awards to colleagues in the second quarter of 2003, and to a lesser extent, the Company's expansion, primarily into New York and new California regional centers in Walnut Creek and Palo Alto. If the amortization of goodwill is excluded from 2001(a non GAAP measure which management feels is important to analyze trends in noninterest expense), noninterest expense in 2002 increased 10.3 percent reflecting the acquisition costs of both Civic and the new banking office in New York City, as well as the addition of new colleagues, most notably in private banking and wealth management. A breakdown of noninterest expense by category is reflected below.

Analysis of Changes in Noninterest Expense

Dollars in millions	2003	Increase (Decrease) Amount	%	2002	Increase (Decrease) Amount	%	2001
Salaries and employee benefits	$ 217.5	$ 21.8	11.1	$ 195.7	$ 25.3	14.8	$ 170.4
All Other:							
Net occupancy of premises	31.4	3.8	13.8	27.6	1.2	4.5	26.4
Professional	27.2	2.6	10.6	24.6			24.6
Information services	18.0	(0.2)	(1.1)	18.2	1.6	9.6	16.6
Marketing and advertising	13.2	0.1	0.8	13.1	1.0	8.3	12.1
Depreciation	12.8	(0.4)	(3.0)	13.2	(0.5)	(3.6)	13.7
Office services	10.0	0.2	2.0	9.8	0.4	4.3	9.4
Amortization of intangibles	9.2	1.7	22.7	7.5	1.9	33.9	5.6
Equipment	2.4	(0.1)	(4.0)	2.5	0.3	13.6	2.2
Amortization of goodwill			N/M		(12.9)	(100.0)	12.9
Other operating	22.5	3.1	16.0	19.4	(0.1)	(0.5)	19.5
Total all other	146.7	10.8	7.9	135.9	(7.1)	(5.0)	143.0
Total	$ 364.2	$ 32.6	9.8	$ 331.6	$ 18.2	5.8	$ 313.4

Salaries and employee benefit expense increased 11.1 percent in 2003 compared with a 14.8 percent increase in 2002. On a full-time equivalent basis, staff levels have increased to 2,348 at December 31, 2003 from 2,250 at December 31, 2002 and 2,084 at December 31, 2001. As described in "Note 1 of Notes to Consolidated Financial Statements" and "Critical Accounting Policies", the Company applies APB Opinion No. 25 in accounting for its stock options plans and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. However, in 2003, stock-based compensation performance awards for 2002 for the first time included restricted stock grants. The Company recorded $905,170 in expense for restricted stock awards for 2003 out of the original $7,604,214 grant.

The remaining expense categories increased $10.8 million, or 7.9 percent, between 2002 and 2003. Increases resulted from the Company's growth, including expenses resulting from the acquisition costs of CCM, and to a lesser extent, the expansion of the new banking office in New York City. The remaining expense categories decreased $7.1 million, or 5.0 percent, between 2001 and 2002. Other expense increases in 2002 also resulted from the Company's growth, including expenses resulting from

the acquisition costs of both Civic and the banking office in New York City, which partially offset the decrease from the elimination of the amortization of goodwill.

Income Taxes

The 2003 effective tax rate was 36.6 percent, compared with 30.1 percent for 2002 and 33.0 percent for 2001. The higher effective tax rate for 2003 reflects changes in the mix of tax rates applicable to income before tax and the absence of certain tax benefits recognized in 2002, including benefits related to the Company's two previously disclosed REITs. In the fourth quarter of 2003, the Company reversed the net state tax benefits recorded in the first three quarters of the year and reflected no such benefits in the fourth quarter related to its REITs in accordance with accounting principles generally accepted in the United States of America.

On December 31, 2003, the California Franchise Tax Board announced its position that certain transactions related to REITs and regulated investment companies ("RICs") will be disallowed pursuant to California Senate Bill 614 and Assembly Bill 1601. The Company created its two

REITs (one of which was previously formed as a RIC in 2000) to raise capital for the Bank. No tax benefits relating to these transactions will be recorded in 2004. The Company believes it is appropriately reserved for the benefits recognized in the three prior years. The Company and its advisors believe that the Company's position has merit and the Company will pursue its claims and defend its use of these entities and transactions.

The lower effective tax rate in 2002 compared to 2001 reflects the discontinuation of goodwill amortization in 2002, a $1.6 million benefit from a change in state tax law concerning the tax treatment of loan loss reserves, and the realization of a capital loss resulting from the issuance and subsequent sale of an additional series of preferred stock by one of the Company's REITs.

The effective rates during all periods differed from the applicable statutory federal tax rate due to various factors, including state taxes, tax benefits from investments in affordable housing partnerships, tax-exempt income, including interest on bank-owned life insurance, and amortization of nondeductible goodwill, the latter in 2001 only.

The Company's tax returns are open for audits 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. When, and if, such differences occur and the related tax effects become probable and estimable, such amounts will be recognized.

BALANCE SHEET ANALYSIS

Capital

At December 31, 2003, the Corporation's and the Bank's Tier 1 capital, which is comprised of common shareholders' equity as modified by certain regulatory adjustments, amounted to $930.9 million and $986.7 million, respectively. At December 31, 2002, the Corporation's and the Bank's Tier 1 capital amounted to $833.5 million and $797.5 million, respectively. The increase from December 31, 2002 resulted from 2003 earnings and the exercise of stock options, offset by dividends paid and amounts related to shares repurchased. See " Overview."

The following table presents the regulatory standards for well capitalized institutions and the capital ratios for the Corporation and the Bank at December 31, 2003, 2002, and 2001.

	Regulatory Well Capitalized Standards	December 31, 2003	2002	2001
City National Corporation				
Tier 1 leverage	N/A%	7.48%	7.55%	7.26%
Tier 1 risk-based capital	6.00	10.81	9.87	9.32
Total risk-based capital	10.00	14.86	14.26	14.08
City National Bank				
Tier 1 leverage	5.00%	8.01%	7.24%	6.59%
Tier 1 risk-based capital	6.00	11.51	9.46	8.48
Total risk-based capital	10.00	15.58	13.85	13.28

Liquidity Management

Liquidity risk results from the mismatching of asset and liability cash flows. Funds for this purpose can be obtained in cash markets, by borrowing, or by selling assets.

The objective of liquidity management is the ability to maintain cash flow adequate to fund the Company's operations and meet obligations and other commitments on a timely and cost effective basis. The Company achieves this objective through the selection of asset and liability maturity mixes that it believes best meet its needs. The Company's liquidity position is enhanced by its ability to raise additional funds as needed in the money markets.

The Company's core deposit base in recent years provided the majority of the Company's funding requirements. This relatively stable and low-cost source of funds has, along with shareholders' equity, provided 84 percent and 78 percent of funding for average total assets in 2003 and 2002, respectively.

A significant portion of remaining funding of average total assets is provided by short-term federal fund purchases and sales of securities under repurchase agreements. This funding source, on average, totaled $147.9 million and $199.1 million in 2003 and 2002, respectively. Additionally, the Company decreased its funding from other borrowings, primarily Federal Home Loan Bank advances, to $645.6 million on average in 2003 from $879.1 million in 2002.

Liquidity is also provided by assets such as federal funds sold, securities purchased under resale agreements, and trading account securities, which may be immediately converted to cash at minimal cost. The aggregate of these assets averaged $418.7 million during 2003 compared with $205.8 million in 2002. Liquidity is also provided by the portfolio of securities available-for-sale, which totaled $3,365.7 million and $2,226.7 million at December 31, 2003 and 2002, respectively.

The unpledged portion of securities available-for-sale at December 31, 2003 totaled $2,961.8 million and could be sold or made available as collateral for borrowing. Maturing loans also provide liquidity, and $2,848.2 million, or 36.1 percent, of the Company's loans are scheduled to mature in 2004.

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. 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 not excessive and that liquidity is properly managed.

The Company has established two primary measurement processes to quantify and manage exposure to interest rate risk: net interest income simulation modeling and present value of equity analysis. Net interest income simulations are used to identify the direction and severity of interest rate risk exposure across a twelve and twenty-four month forecast horizon. Present value of equity calculations are used to estimate the theoretical price sensitivity of shareholders' equity to changes in interest rates. The Company also uses gap analysis to provide insight into structural mismatches of asset and liability cash flows.

Net Interest Income Simulation: The Company's net interest margin is affected by the level of interest rates and by the shape of the yield curve. The yield curve depicts market interest rates as a function of maturity. The Company has a large portfolio of rate sensitive commercial loans that are funded in part by rate stable core deposits. As a result, the Company is naturally asset sensitive; net interest margin increases when interest rates are increasing and decreases when rates are declining. The Company uses a simulation model to estimate the severity of this risk and to develop mitigation strategies. It captures the dynamic nature of the balance sheet by anticipating probable on-balance sheet and off-balance sheet responses to different interest rate scenarios over the course of twelve and twenty-four month forecasting horizons. The interest rate scenarios ramp up or down substantially from then current levels. The magnitude of change is determined from historical volatility analysis. Model assumptions are updated periodically and are reviewed by the Asset/Liability Management Committee ("ALCO"). The Board of Directors has adopted limits within which interest rate exposure must be contained. Within these broader limits, ALCO sets management guidelines to further contain interest rate risk exposure.

During 2003, the Company maintained a moderate asset-sensitive interest rate position. Based on the balance sheet at December 31, 2003, the Company's net interest income simulation model indicates that net interest income would not be substantially adversely impacted 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 3.2 percent. The 3.2 percent at-risk amount is up slightly from the 2.7 percent at risk amount a year earlier. (Note: The 100 basis point decline could cause some rates to be negative. We assume that rates may fall to zero but no further). 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 2.5 percent compared to 2.8 percent from a year earlier. Exposure remains within ALCO guidelines. The Company continues to use a variety of tools to manage its asset sensitivity.

Present Value of Equity: The present value of equity ("PVE") model is used to evaluate the vulnerability of the market value of shareholders' equity to changes in interest rates. The PVE model calculates the expected cash flow of all of the Company's assets and liabilities under sharply higher and lower interest rate scenarios. The present value of these cash flows is calculated by discounting them using the interest rates for that scenario. The difference between the present value of assets and the present value of liabilities in each scenario is the PVE. PVE will vary depending on the timing of expected cash flow, the level of interest rates, and the shape of the yield curve. The assumptions governing these relationships are the same as those used in the net interest income simulation. They are updated periodically and are reviewed by ALCO. The Board of Directors has adopted limits within which this exposure must be contained.

The model indicates that PVE is somewhat vulnerable to a sudden and substantial increase in interest rates. As of December 31, 2003, a two-percentage point increase in interest rates results in a 7.0 percent decline in PVE. This compares to a 2.6 percent decline a year earlier. The higher sensitivity is due to the increase of medium-term fixed income investments funded by core deposit growth. These deposits are assumed to have a relatively short maturity. PVE improves only slightly as rates decrease due to their very low starting levels.

A-17

Gap Analysis: The gap analysis is based on the contractual cash flows of all asset and liability balances on the Company's books. The contractual life of these balances may differ substantially from their expected lives however. For example, checking accounts are subject to immediate withdrawal. Experience suggests that these accounts will have an average life of several years. Also, certain loans (such as first mortgages) are subject to prepayment. The gap analysis reflects the contractual cash flows adjusted for anticipated client behavior. It may be used to identify periods in which there is a substantial mismatch between asset and liability cash flows. These mismatches can be moderated by investments or off-balance sheet derivatives transaction strategies. Gap analysis is used to support both interest rate risk and liquidity risk management.

The following table presents in tabular form information about the Company's financial instruments that are sensitive to changes in interest rates. The table presents principal cash flows and related average interest rates by expected re-pricing or maturity dates and fair values as of December 31, 2003 and December 31, 2002. Expected re-pricing or maturities of assets are contractual. Interest-bearing demand and savings deposits are included in the earliest maturity category, even though withdrawal of these balances is not contractually required and may not actually occur during that period. Average interest rates on variable rate instruments are based upon the Company's interest rate forecast. Actual re-pricing or maturities of interest-sensitive assets and liabilities could vary substantially from expectations if different assumptions are used or if actual experience differs from the assumptions used.

Interest-Sensitive Financial Instrument Maturities
December 31, 2003

Dollars in millions	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
Interest-sensitive assets:								
Available-for-sale securities	$ 609.0	$ 587.4	$ 686.1	$ 517.0	$ 199.0	$ 767.2	$ 3,365.7	$ 3,365.7
Average interest rate	4.75%	4.66%	4.53%	4.31%	4.71%	5.06%	4.68%	
Loans								
Commercial	2,485.8	288.2	142.9	53.4	49.1	203.0	3,222.4	3,115.4
Average interest rate	4.44%	4.19%	4.69%	5.58%	5.25%	4.58%	4.47%	
Real estate mortgage	1,181.7	57.9	47.6	78.9	96.9	539.2	2,002.2	2,002.3
Average interest rate	5.07%	7.00%	7.34%	7.46%	6.63%	7.15%	5.90%	
Residential first mortgage	302.9	139.6	124.2	149.4	178.4	1,043.5	1,938.0	1,923.3
Average interest rate	5.30%	5.19%	5.12%	5.01%	4.77%	5.53%	5.33%	
Real estate construction	634.0	1.5	0.8	0.6	0.7		637.6	625.1
Average interest rate	4.20%	11.42%	9.79%	7.55%	7.55%	7.36%	4.25%	
Installment	13.7	7.5	6.4	4.5	4.2	46.2	82.5	73.1
Average interest rate	10.69%	7.08%	6.59%	6.42%	6.09%	6.08%	7.10%	
Total loans	4,618.1	494.7	321.9	286.8	329.3	1,831.9	7,882.7	7,739.2
Total interest-sensitive assets	$ 5,227.1	$ 1,082.1	$ 1,008.0	$ 803.8	$ 528.3	$ 2,599.1	$ 11,248.4	$ 11,104.9

Dollars in millions	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
Interest-sensitive liabilities:								
Deposits								
Interest checking	$ 840.7	$	$	$	$	$	$ 840.7	$ 840.7
Average interest rate	0.25%						0.25%	
Savings	208.7						208.7	208.7
Average interest rate	0.23%						0.23%	
Money market	3,261.0						3,261.0	3,261.0
Average interest rate	0.57%						0.57%	
Time	1,032.5	61.9	9.5	26.9	8.9	0.3	1,140.0	1,142.6
Average interest rate	0.92%	3.59%	3.08%	4.27%	3.07%	4.42%	1.18%	
Total deposits	5,342.9	61.9	9.5	26.9	8.9	0.3	5,450.4	5,453.0
Total borrowings	703.1						703.1	729.7
Average interest rate	1.22%						1.22%	
Total interest-sensitive liabilities	$ 6,046.0	$ 61.9	$ 9.5	$ 26.9	$ 8.9	$ 0.3	$ 6,153.5	$ 6,182.7

Interest-Sensitive Financial Instrument Maturities
December 31, 2002

Dollars in millions	2003	2004	2005	2006	2007	Thereafter	Total	Fair Value
Interest-sensitive assets:								
Available-for-sale securities	$ 236.9	$ 251.7	$ 287.4	$ 269.1	$ 186.2	$ 995.4	$ 2,226.7	$ 2,226.7
Average interest rate	5.78%	5.23%	5.96%	5.08%	4.97%	5.99%	5.66%	
Loans								
Commercial	2,757.7	252.5	247.5	78.0	45.2	228.2	3,609.1	3,514.3
Average interest rate	4.90%	4.69%	4.53%	6.29%	6.04%	4.97%	4.91%	
Real estate mortgage	1,151.1	69.8	53.6	51.6	83.7	524.6	1,934.4	1,977.4
Average interest rate	5.75%	7.90%	7.81%	7.84%	7.75%	7.58%	6.52%	
Residential first mortgage	147.7	74.5	67.0	51.0	42.6	1,356.1	1,738.9	1,745.5
Average interest rate	6.26%	6.21%	6.26%	6.31%	6.35%	6.41%	6.38%	
Real estate construction	636.4	1.6	0.5	0.5	0.5	1.4	640.9	632.0
Average interest rate	4.57%	8.38%	7.45%	7.58%	7.68%	7.68%	4.61%	
Installment	11.0	9.0	7.1	6.0	6.5	36.6	76.2	72.1
Average interest rate	8.52%	7.86%	7.68%	7.27%	6.74%	7.23%	7.54%	
Total loans	4,703.9	407.4	375.7	187.1	178.5	2,146.9	7,999.5	7,941.3
Total interest-sensitive assets	$ 4,940.8	$ 659.1	$ 663.1	$ 456.2	$ 364.7	$ 3,142.3	$ 10,226.2	$ 10,168.0
Interest-sensitive liabilities:								
Deposits								
Interest checking	$ 692.3	$	$	$	$	$	$ 692.3	$ 692.3

Dollars in millions	2003	2004	2005	2006	2007	Thereafter	Total	Fair Value
Average interest rate	0.25%						0.25%	
Savings	198.3						198.3	198.3
Average interest rate	0.19%						0.19%	
Money market	2,929.5						2,929.5	2,929.5
Average interest rate	1.24%						1.24%	
Time	1,148.9	26.6	49.7	4.4	25.2	0.6	1,255.4	1,260.9
Average interest rate	1.57%	2.74%	4.14%	4.27%	4.45%	4.74%	1.76%	
Total deposits	4,969.0	26.6	49.7	4.4	25.2	0.6	5,075.5	5,081.0
Total borrowings	749.3	15.0					764.3	776.3
Average interest rate	1.59%	5.24%					1.66%	
Total interest-sensitive liabilities	$ 5,718.3	$ 41.6	$ 49.7	$ 4.4	$ 25.2	$ 0.6	$ 5,839.8	$ 5,857.3

The use of "plain vanilla" interest rate swaps to manage interest rate exposure as hedges of financial instruments results in the difference between fixed and floating rates paid or received being added to or reducing net interest income on an earned basis within a reporting period.

The use of interest rate swaps involves the risk of dealing with counterparties and their ability to meet contractual terms. These counterparties must receive appropriate credit approval before the Company enters into an interest rate contract. Notional principal amounts express the volume of these transactions, although the amounts potentially subject to credit and market risk are much smaller. At December 31, 2003, the Company's interest rate swaps were entered into as a hedge of the variability in interest cash flows generated from LIBOR based loans due to fluctuations in the LIBOR index or to convert fixed rate deposits and borrowings into floating rate liabilities. On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivatives and Hedging Activities", as amended. SFAS No. 133 requires that all derivatives be recorded on the balance sheet at their fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction.

As of December 31, 2003, the Company had $1,100.9 million notional amount of interest rate swaps, of which $600.9 million were fair value hedges and $500.0 million were cash flow hedges. The positive mark-to-market on the fair value hedges resulted in the recognition of other assets and an

increase in hedged deposits and borrowings of $34.9 million. The positive mark-to-market on the cash flow hedges of variable rate loans resulted in the recognition of other assets and comprehensive income of $7.2 million, before taxes of $3.0 million.

Amounts to be paid or received on the cash flow hedge interest rate swaps will be reclassified into earnings upon receipt of interest payments on the underlying hedged loans, including amounts totaling $9.9 million that were reclassified into net interest income during 2003. Comprehensive income expected to be reclassified into net interest income within the next 12 months is $7.0 million.

As of December 31, 2002, the Company had $806.4 million notional amount of interest rate swaps, of which $381.4 million were fair value hedges and $425.0 million were cash flow hedges. The positive mark-to-market on the fair value hedges resulted in the recognition of other assets and an increase in hedged deposits and borrowings of $45.1 million. In addition, deposits and borrowings included $0.3 million and comprehensive income included $0.8 million, before taxes of $0.4 million relating to interest rate swaps terminated with positive benefit during 2001. These amounts are being amortized into income over the designated hedged period. The positive mark-to-market on the cash flow hedges of variable rate loans resulted in the recognition of other assets and comprehensive income of $11.6 million, before taxes of $4.9 million.

The Company has not entered into transactions involving any other more sophisticated interest rate derivative financial instruments, such as interest rate floors, caps, and interest rate futures contracts. The Company could consider using such financial instruments in the future if they offered a significant financial advantage over interest rate swaps.

The table below shows the notional amounts of the Company's interest rate swap maturities and average rates at December 31, 2003 and December 31, 2002. Average interest rates on variable rate instruments are based upon the Company's interest rate forecast.

Interest Rate Swap Maturities and Average Rates
December 31, 2003

Notional Amounts in millions	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
Notional Amount	$ 310.0	$ 235.0	$ 65.0	$	$ 115.9	$ 375.0	$ 1,100.9	$ 42.1(1)
Weighted Average rate received	2.74%	3.76%	3.09%	%	6.63%	4.85%	4.11%	
Weighted Average rate paid	1.13%	1.13%	1.13%	%	1.11%	1.18%	1.14%	

Interest Rate Swap Maturities and Average Rates
December 31, 2002

Notional Amounts in millions	2003	2004	2005	2006	2007	Thereafter	Total	Fair Value
Notional Amount	$ 130.0	$ 185.0	$ 210.0	$ 15.0	$	$ 266.4	$ 806.4	$ 56.7(1)
Weighted Average rate received	4.62%	3.59%	3.95%	4.74%	%	6.03%	4.68%	
Weighted Average rate paid	1.39%	1.45%	1.39%	1.42%	%	1.64%	1.49%	

(1) Estimated net gain to settle derivative contracts.

At December 31, 2003, the Company's outstanding foreign exchange contracts for both those purchased as well as sold totaled $63.9 million. The Company enters into foreign exchange contracts with its clients and counterparty banks primarily for the purpose of offsetting or hedging clients' transaction and economic exposures arising out of commercial transactions. The Company's policies also permit limited proprietary currency positioning within certain approved limits. The Company actively manages its foreign exchange exposures within prescribed risk limits and controls. All foreign

exchange contracts outstanding at December 31, 2003 had remaining maturities of twelve months or less and the mark-to-market included in other assets totaled $0.3 million.

Securities

At December 31, 2003, the securities available-for-sale portfolio had an unrealized net gain of $15.0 million, comprised of $39.2 million of unrealized gains and $24.2 million of unrealized losses. At December 31, 2002, the securities available-for-sale portfolio had an unrealized net gain of $57.2 million, comprised of $70.2 million of unrealized gains and $13.0 million of unrealized losses. The unrealized gain or loss on securities available-for-sale is reported on an after-tax basis as a valuation allowance that is a component of other comprehensive income.

Comparative period end security portfolio balances are presented below:

Securities Available-for-Sale

	December 31, 2003		December 31, 2002	
Dollars in thousands	Cost	Fair Value	Cost	Fair Value
U.S. Government and federal agency	$ 345,725	$ 348,468	$ 317,183	$ 324,223
Mortgage-backed	2,561,977	2,561,997	1,448,673	1,491,489
State and Municipal	255,354	268,041	224,013	236,591

	December 31, 2003		December 31, 2002	
Other			5,451	4,600
Total debt securities	3,163,056	3,178,506	1,995,320	2,056,903
Marketable equity securities	187,576	187,148	174,124	169,753
Total securities	$ 3,350,632	$ 3,365,654	$ 2,169,444	$ 2,226,656

At December 31, 2003, the fair value of securities available-for-sale totaled $3,365.7 million, an increase of $1,139.0 million, or 51.2 percent from December 31, 2002. The increase was due to deposit growth exceeding increased loan demand. The average duration of total available-for-sale securities at December 31, 2003 was 3.4 years compared with 2.1 years at December 31, 2002.

The following table provides the expected remaining maturities and yields (taxable-equivalent basis) of debt securities within the securities portfolio at December 31, 2003. The remaining contractual principal maturities for mortgage-backed securities were allocated assuming no prepayments. Remaining maturities will differ from contractual maturities because mortgage debt issuers may have the right to repay obligations prior to contractual maturity. 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 Available-for-Sale Securities

	One year or less		Over 1 year thru 5 years		Over 5 years thru 10 years		Over 10 years		Total	
Dollars in thousands	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**	**Amount**	**Yield (%)**
U.S. Government and federal agency	$ 26,036	4.07	$ 321,372	3.25	$ 1,060	6.17	$		$ 348,468	3.32
Mortgage-backed					269,479	4.01	2,292,518	4.58	2,561,997	4.52
State and Municipal	5,730	6.92	112,786	6.66	96,296	6.38	53,229	6.08	268,041	6.44
Total debt securities	$ 31,766	4.58	$ 434,158	4.14	$ 366,835	4.64	$ 2,345,747	4.61	$ 3,178,506	4.56
Amortized cost	$ 31,067		$ 425,021		$ 360,828		$ 2,346,140		$ 3,163,056	

Dividend income included in interest income on securities available-for-sale in the consolidated statement of income and comprehensive income was $7.9 million and $9.7 million for 2003 and 2002, respectively.

Loan Portfolio

Total loans were $7,882.7 million, $7,999.5 million, and $7,159.2 million at December 31, 2003, 2002, and 2001, respectively.

Total loans decreased $116.7 million during 2003 due to modest commercial loan demand. Real estate mortgages grew $67.8 million and residential first mortgage loans grew $199.1 million while commercial loans decreased $386.6 million and construction loans decreased $3.3 million.

Total loans increased $840.3 million in 2002. Commercial loans grew $361.7 million, real estate mortgage loans grew $266.3 million, residential first mortgage loans grew $151.6 million and real estate construction loans increased by $54.8 million.

The following table shows the Company's consolidated loans by type of loan and their percentage distribution:

Loan Portfolio

December 31,

Dollars in thousands	December 31, 2003	2002	2001	2000	1999
Commercial	$ 3,222,444	$ 3,609,053	$ 3,247,320	$ 3,248,253	$ 2,870,438
Real estate mortgage	2,002,229	1,934,409	1,668,114	1,479,862	1,042,123
Residential first mortgage	1,937,979	1,738,909	1,587,303	1,273,711	1,173,334
Real estate construction	637,595	640,861	586,066	452,301	344,870
Installment loans	82,495	76,238	70,403	73,018	59,904
Total loans	$ 7,882,742	$ 7,999,470	$ 7,159,206	$ 6,527,145	$ 5,490,669
Commercial	40.9%	45.1%	45.3%	49.8%	52.2%
Real estate mortgage	25.4	24.2	23.3	22.7	19.0
Residential first mortgage	24.6	21.7	22.2	19.5	21.4
Real estate construction	8.1	8.0	8.2	6.9	6.3
Installment loans	1.0	1.0	1.0	1.1	1.1
Total loans	100.0%	100.0%	100.0%	100.0%	100.0%

The Company's loan portfolio consists primarily of loans for business and real estate purposes. Loans are generally made on the basis of a cash flow repayment source as the first priority, and collateral is generally a secondary source for loan qualification. Although the legal lending limit for any one borrowing relationship can amount to $209.0 million at December 31, 2003, the Bank has established "house limits" for individual borrowings. These limits vary by risk rating. The highest amount that can be extended to any one borrowing relationship without the approval of the Bank's Audit Committee in 2003 was $30.0 million with the exception of select real estate commercial relationships which have higher specific limits not exceeding $65.0 million. At December 31, 2003, there were 20 relationships with commitments greater than $30.0 million. Of the 20 relationships, 8 had outstanding balances greater than $30.0 million, with the largest outstanding being a $100.6 million relationship with an investment-grade borrower who is involved in the aircraft leasing business.

At December 31, 2003, the Company's loan portfolio included approximately $964.0 million in credits to borrowers located in Northern California including approximately $496.0 million of loans managed in Northern California offices.

Commercial

Commercial loans were $3,222.4 million at December 31, 2003, representing 40.9 percent of the loan portfolio compared with $3,609.1 million, or 45.1 percent of the loan portfolio, at December 31, 2002. The average outstanding individual note balance in the commercial loan portfolio at December 31, 2003 was $415,000. See " Results of Operations Net Interest Income."

Following is a breakdown of commercial loans to businesses engaged in the industries listed.

Commercial Loans By Industry

Dollars in thousands	December 31, 2003	%	2002	%
Services (1)	$ 737,517	22.9	$ 786,362	21.8
Entertainment	571,072	17.7	540,521	15.0
Wholesale Trade	269,345	8.4	400,132	11.1
Manufacturing	328,258	10.2	342,750	9.5
Real Estate and Construction	461,865	14.3	442,315	12.3

	December 31,			
Finance and Insurance	148,476	4.6	286,553	7.9
Retail Trade	178,561	5.5	189,791	5.3
Dairy (2)	151,684	4.7	152,803	4.2
Aircraft Lessors (3)	108,223	3.4	121,455	3.4
Syndicated Nonrelationship Commercial and Purchased Media and Telecommunications	18,681	0.6	101,054	2.8
Other	248,762	7.7	245,317	6.7
Total	$ 3,222,444	100.0	$ 3,609,053	100.0
Nonaccrual loans	$ 37,418		$ 52,890	
Percentage of total loans	1.16%		1.47%	

(1) Legal, membership organizations, engineering and management services, etc.

(2) The Company expects to orderly exit this industry segment over the next 24 months.

(3) Loans in this category include outstandings of approximately $75.1 million to six "single-asset" borrowers, all related to one company. These loans are each secured by narrow-bodied commercial aircraft. These loans are also partially or fully supported by either payment guarantees or asset value support and remarketing agreements from an investment grade company. This investment grade company also has a $25.5 million unsecured loan which is included in this category. As of December 31, 2003, all of the loans are current. Not included in this category are loans to other companies that serve the airline industry or loans to individuals or companies to purchase non-commercial aircraft where repayment is primarily predicated on the strength of the borrower and/or guarantor.

The Company's December 31, 2003 syndicated non-relationship commercial loans and purchased media and telecommunications loan portfolio contained 8 loans with commitment and outstanding balances of $35.4 million and $18.7 million, respectively.

Following is a breakdown of the syndicated non-relationship commercial loans and purchased media and telecommunication loan portfolio as of December 31, 2003.

Dollars in thousands	Number	Commitments	Oustandings	Percentage
Commercial	4	$ 12,175	$ 11,944	64%
Publishing	1	9,688	2,000	11
Telecommunications	2	8,495	710	4
Television	1	5,000	4,027	21
	8	$ 35,358	$ 18,681	100%

Due to these balances being less than one quarter of one percent of the loan portfolio, the Company will no longer report these balances separately.

Real Estate Mortgage

Real estate mortgages, representing 25.4 percent of the loan portfolio, consisted of 82.9 percent commercial and 17.1 percent residential (1-4 family including undeveloped land, condominium/apartments, and equity lines of credit). The average outstanding individual note balance at December 31, 2003 was approximately $789,000.

Following is a breakdown of real estate mortgage loans by collateral type:

Real Estate Mortgage Loans by Collateral Type

	December 31,			
Dollars in thousands	**2003**	**%**	**2002**	**%**
Industrial	$ 742,426	37.1	$ 711,203	36.8
Office buildings	278,318	13.9	314,662	16.3
Shopping centers	143,066	7.1	167,651	8.7
1-4 family (includes undeveloped land)	101,262	5.1	81,557	4.2
Condominiums/apartments	51,729	2.6	82,206	4.2
Land, nonresidential	24,464	1.2	19,300	1.0
Churches/religious	26,818	1.3	39,239	2.0
Equity lines of credit	187,981	9.4	157,112	8.1
Other	446,165	22.3	361,479	18.7
Total	$ 2,002,229	100.0	$ 1,934,409	100.0
Nonaccrual loans	$ 2,695		$ 12,014	
Percentage of outstandings	0.13%		0.62%	

Residential First Mortgage

Residential first mortgage loans which comprised 24.6 percent of total loans at December 31, 2003 and are made primarily to existing clients, continued a 10-year growth trend, increasing $199.1 million, or 11.4 percent, to $1,938.0 million at December 31, 2003. At December 31, 2003, 99.3 percent of the portfolio was originated internally, and the balance was purchased from third parties. The residential first mortgage loans originated internally have a weighted average loan-to-value ratio of 56.0 percent at origination. There were $899,000, or 0.05 percent of outstanding, residential first mortgage loans on nonaccrual status as of December 31, 2003. The average outstanding individual note balance at December 31, 2003 was approximately $632,000.

Construction

The real estate construction portfolio, representing 8.1 percent of the loan portfolio, consisted of 58.6 percent commercial and 41.4 percent residential. Such loans are made on the basis of the economic viability for the specific project, the cash flow resources of the developer, the developer's equity in the project, and the underlying financial strength of the borrower. The Company's policy is to monitor each loan with respect to incurred costs, sales price, and sales cycle. The average outstanding individual note balance at December 31, 2003 was approximately $3,172,000.

Following is a breakdown of real estate construction loans by collateral type:

Real Estate Construction Loans by Collateral Type

	December 31,
Dollars in thousands	

	December 31,						
		2003	%		2002	%
Industrial	$	96,969	15.2	$	133,951	20.9
1-4 family (includes undeveloped land)		183,484	28.8		121,825	19.0
Office buildings		128,872	20.2		131,198	20.5
Shopping centers		82,112	12.9		106,074	16.6
Condominiums/apartments		80,216	12.6		71,036	11.1
Other		65,942	10.3		76,777	11.9
Total	$	637,595	100.0	$	640,861	100.0
Nonaccrual loans	$	916		$	5,267	
Percentage of outstandings		0.14%			0.82%	

Installment

Installment loans consist primarily of loans to individuals for personal purchases. Included are $345,000 in nonaccrual loans, or 0.42 percent of outstandings at December 31, 2003. The average outstanding individual note balance at December 31, 2003 was approximately $35,000.

Concentrations of credit risk arise when a number of clients are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio and credit performance depends on the economic stability of Southern California. Credit performance also depends, to a lesser extent, on economic conditions in the San Francisco Bay Area and New York.

The Company's lending activities are predominantly in California and New York although it has some loans to domestic clients who are engaged in international trade or film productions.

Inherent in any loan portfolio are risks associated with certain types of loans. The Company assesses and manages credit risk on an ongoing basis through diversification guidelines, lending limits, credit review and approval policies, and internal monitoring. As part of the control process, an independent loan review and compliance department regularly examines the Company's loan portfolio and other credit related products, including unused commitments and letters of credit. In addition to this internal credit process, the Company's loan portfolio is subject to examination by external regulators in the normal course of business. Credit quality is influenced by underlying trends in the economic and business cycle. With the slowdown in the economy, the Company has enhanced its training program for its line officers and implemented additional credit underwriting and monitoring procedures. The Company also seeks to manage and control its risk through diversification of the

portfolio by type of loan, industry concentration, and type of borrower as well as specific maximum loan-to-value (LTV) limitations at origination as to various categories of real estate related loans other than residential first mortgage loans. These ratios are as follows:

Maximum LTV Ratios

Category of Real Estate Collateral	Maximum LTV Ratio
1-4 family (includes undeveloped land)	80%
Condominiums/apartments	80
Equity lines of credit	80
Industrial	80
Shopping centers	80

Category of Real Estate Collateral	Maximum LTV Ratio
Churches/religious	75
Office building	75
Other improved property	70
Acquisition and development	60
Land, nonresidential	50

The Company's loan policy provides that any term loan on income-producing properties must have a minimum debt service coverage of at least 1.20 to 1 for non-owner occupied property and at least 1.05 to 1 for owner occupied at origination. Any exception to these guidelines requires approval at higher levels of authority based on the type of exception. Exceptions are reviewed by the Credit Policy Committee of the Bank.

One of the significant risks associated with real estate lending involves environmental hazards on or in property affiliated with the loan. The Company mitigates such risks through an evaluation performed by the Bank's Environmental Risk Management Unit for all loans secured by real estate. A Phase I environmental report may be required if the evaluation determines it appropriate. Other reasons would include the industrial use of environmentally sensitive substances or the proximity to other known environmental problems. A Phase II report is required in certain cases, depending on the outcome of the Phase I report.

At December 31, 2003, 81.1 percent of commercial loans and 51.4 percent of real estate loans, including residential first mortgages, outstanding were floating interest rate loans, including hybrids (which convert from fixed to floating rates). There were no floating rate installment loans as of December 31, 2003. Floating rate loans comprised 63.0 percent of the total loan portfolio for both December 31, 2003 and December 31, 2002. Total loans at December 31, 2003 consisted of 36.1 percent due in one year or less, 13.7 percent due in one to five years, and 50.2 percent due after five years.

The loan maturities shown in the table below are based on contractual maturities. As is customary in the banking industry, loans that meet sound underwriting criteria can be renewed by mutual agreement between the Company and the borrower. Because the Company is unable to estimate the extent to which its borrowers will renew their loans, the table is based on contractual maturities.

Loan Maturities

	December 31, 2003					
Dollars in thousands	Commercial	Real Estate Mortgage	Residential First Mortgage	Real Estate Construction	Installment	Total
Aggregate maturities of loan balances due:						
In one year or less						
Interest rate floating	$ 1,870,089	$ 400,807	$	$ 480,061	$	$ 2,750,957
Interest rate fixed	76,412	7,918	480	6,595	5,809	97,214
After one year but within five years						
Interest rate floating	462,418	266,776	17	124,049		853,260
Interest rate fixed	164,462	15,189	28,447	3,166	13,985	225,249
After five years						
Interest rate floating	280,714	471,027	587,426	20,799		1,359,966
Interest rate fixed	368,349	840,512	1,321,609	2,925	62,701	2,596,096
Total loans	$ 3,222,444	$ 2,002,229	$ 1,937,979	$ 637,595	$ 82,495	$ 7,882,742

Asset Quality

Allowance for Credit Losses

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

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

The allowance for credit losses is a significant estimate that can and does change based on management's process in analyzing the loan portfolio and on management's assumptions about specific borrowers and the impact on the portfolio of applicable economic and environmental conditions, among other factors. The Company's methodology for determining the allowance for credit losses establishes both a specific and a general component. The specific component of the allowance for commercial and real estate loans is based principally on current loan grades and historical loan loss experience adjusted to reflect current conditions, as well as analyses of other factors that may have affected the collectibilty of loans in the portfolio. The specific component of the allowance for residential first mortgage and installment loans is based principally on loan payment status and historical loss rates adjusted to reflect current conditions. The general component of the allowance for credit losses represents the results of analyses that estimate probable losses inherent in the total portfolio that are not fully captured in the specific allowance analyses. These analyses include industry concentrations, current economic factors, trends in the portfolio and the estimated impact of current economic conditions on certain historical loss rates used. In assessing the impact of current economic factors and the estimated impact of current economic conditions on certain historical loss rates,

management continuously monitors trends in loan portfolio qualitative factors, including loan growth, past due loans, criticized loans and nonperforming loans. Based on known information available to it at the date of this report, management believes that the Company's allowance for credit losses was adequate to cover credit losses inherent in the loan portfolio at December 31, 2003. Examinations of the loan portfolio are also conducted periodically by the Company's regulators.

Based on expected loan growth, the levels of nonperforming loans and net charge-offs, it is anticipated that the level of the allowance will require additional provisions for credit losses in 2004, but not necessarily equal to the amount of net charge-offs. Credit quality will be influenced by underlying trends in the economic cycle, particularly in California, and other factors which are beyond management's control. Consequently, no assurances can be given that the Company will not sustain loan losses, in any particular period, that are sizable in relation to the allowance for credit losses. Additionally, subsequent evaluation of the loan portfolio, in light of factors then prevailing, by the Company and its regulators may warrant an adjustment to the amount of the projected provision. See " Provision for Credit Losses."

The following table summarizes the activity in the allowance for credit losses for the five years ended December 31, 2003:

Allowance for Credit Losses

	Year ended December 31,				
Dollars in thousands	**2003**	**2002**	**2001**	**2000**	**1999**
Loans outstanding	$ 7,882,742	$ 7,999,470	$ 7,159,206	$ 6,527,145	$ 5,490,669
Average amount of loans outstanding	$ 7,729,150	$ 7,822,653	$ 6,713,315	$ 6,236,334	$ 4,822,254
Balance of allowance for credit losses, beginning of year	$ 164,502	$ 142,862	$ 135,435	$ 134,077	$ 135,339
Loans charged off:					

	Year ended December 31,				
Commercial	(38,314)	(61,461)	(41,444)	(40,460)	(18,765)
Real estate mortgage		(2,412)	(44)	(905)	(455)
Residential first mortgage			(220)	(77)	(158)
Real estate construction	(1,524)		(798)		
Installment	(184)	(142)	(73)	(134)	(150)
Total loans charged off	(40,022)	(64,015)	(42,579)	(41,576)	(19,528)
Recoveries of loans previously charged off:					
Commercial	11,544	9,169	12,659	7,977	13,403
Real estate mortgage	482	641	2,011	1,959	893
Residential first mortgage	13	29	282	1,522	527
Real estate construction	411				
Installment	56	29	54	49	28
Total recoveries	12,506	9,868	15,006	11,507	14,851
Net loans charged off	(27,516)	(54,147)	(27,573)	(30,069)	(4,677)
Additions to allowance charged to operating expense	29,000	67,000	35,000	21,500	
Acquisitions		8,787		9,927	3,415
Balance, end of year	$ 165,986	$ 164,502	$ 142,862	$ 135,435	$ 134,077
Ratio of net charge offs to average loans	(0.36)%	(0.69)%	(0.41)%	(0.48)%	(0.10)%

Net loan charge-offs were $27.5 million, or 0.36 percent, of average loans during 2003. Net charge-offs for 2002 and 2001 were $54.1 million, or 0.69 percent, and $27.6 million, or 0.41 percent, of average loans, respectively. Included in net charge-offs were $16.5 million, $25.0 million and $12.9 million for 2003, 2002, and 2001, respectively, relating to purchased syndicated media and telecommunications loans and syndicated non-relationship loans.

The allowance for credit losses as a percentage of total loans was 2.11 percent, 2.06 percent, and 2.00 percent at December 31, 2003, 2002, and 2001, respectively. The allowance for credit losses as a percentage of nonperforming loans was 392.7 percent, 230.5 percent, and 370.5 percent at December 31, 2003, 2002, and 2001, respectively. See " Nonaccrual, Past Due, and Restructured Loans."

Based on an evaluation of individual credits, previous loan loss experience, management's evaluation of the current loan portfolio, and current economic conditions, management has allocated the allowance for credit losses as shown for the past five years in the table below.

Allocation of Allowance for Credit Losses

	Allowance amount					Percent of loans to total loans				
Dollars in thousands	**2003**	**2002**	**2001**	**2000**	**1999**	**2003**	**2002**	**2001**	**2000**	**1999**
Commercial	$ 106,341	$ 116,242	$ 94,092	$ 92,637	$ 78,661	41%	45%	45%	50%	52%
Real estate mortgage	37,263	30,565	26,716	24,517	33,590	25	24	23	23	19
Residential first mortgage	7,448	6,797	12,059	10,453	17,659	25	22	23	19	22
Real estate construction	13,088	9,836	8,849	6,645	2,837	8	8	8	7	6

						Percent of loans to total loans				
Installment	1,846	1,062	1,146	1,183	1,330	1	1	1	1	1
Total	$ 165,986	$ 164,502	$ 142,862	$ 135,435	$ 134,077	100%	100%	100%	100%	100%

While the allowance is allocated to portfolios, the allowance is general in nature and is available for the portfolio in its entirety. In 2003, a decrease in problem loans in the commercial loan category, which includes media and telecommunications loans, resulted in the decreased allocation to this category. Increased allocations to real estate mortgages, residential first mortgages and real estate construction in 2003 reflects the growth of the portfolios.

At December 31, 2003, there were $40.7 million of impaired loans included in nonaccrual loans, that had an allowance of $5.0 million allocated to them. On a comparable basis, at December 31, 2002, there were $70.3 million of impaired loans, which had an allowance of $13.5 million allocated to them.

Loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments.

The assessment for impairment occurs when and while such loans are on nonaccrual, or 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 credit losses. The Company's policy is to record cash receipts on impaired loans first as reductions in principal and then as interest income.

Nonaccrual, Past Due, and Restructured Loans

Total nonperforming assets (nonaccrual loans and ORE) were $42.3 million, or 0.54 percent of total loans and ORE at December 31, 2003, compared with $72.0 million, or 0.90 percent, at December 31, 2002 primarily due to the Company's effort to improve credit quality during 2003. At December 31, 2003, approximately 33.0 percent of the nonperforming assets were loans to Northern California clients. Approximately 12.0 percent of nonperforming assets were 2 syndicated non-relationship commercial and purchased media and telecommunication loans totaling $5.0 million. Five percent of the Company's year-end nonperforming assets were 2 dairy credits for $2.3 million. The remaining 50.0 percent were loans to other borrowers with no major industry concentration.

The following table presents information concerning nonaccrual loans, ORE, accruing loans which are contractually past due 90 days or more as to interest or principal payments and still accruing, and restructured loans:

Nonaccrual, Past Due, and Restructured Loans

	December 31,				
Dollars in thousands	**2003**	**2002**	**2001**	**2000**	**1999**
Nonaccrual loans:					
Commercial	$ 37,418	$ 52,890	$ 32,615	$ 53,355	$ 13,368
Real estate	4,510	17,992	5,393	8,132	10,380
Installment	345	475	555	499	1,540

	December 31,				
Total	42,273	71,357	38,563	61,986	25,288
ORE	0	670	10	522	1,413
Total nonaccrual loans and ORE	$ 42,273	$ 72,027	$ 38,573	$ 62,508	$ 26,701
Total nonaccrual loans as a percentage of total loans	0.54%	0.89%	0.54%	0.95%	0.46%
Total nonaccrual loans and ORE as a percentage of total loans and ORE	0.54	0.90	0.54	0.96	0.49
Allowance for credit losses to total loans	2.11	2.06	2.00	2.07	2.44
Allowance for credit losses to nonaccrual loans	392.65	230.53	370.46	218.49	530.20
Loans past due 90 days or more on accrual status:					
Commercial	$ 235	$ 5,854	$ 1,764	$ 1,543	$ 2,794
Real estate	1,808	104	878	4,361	736
Installment	0	198	973	20	503
Total	$ 2,043	$ 6,156	$ 3,615	$ 5,924	$ 4,033
Restructured loans:					
On accrual status	$	$	$	$ 829	$ 2,707
On nonaccrual status				740	368
Total	$	$	$	$ 1,569	$ 3,075

Company policy requires that a loan be placed on nonaccrual status if either principal or interest payments are 90 days past due, unless the loan is both well secured and in process of collection, or if full collection of interest or principal becomes uncertain, regardless of the time period involved.

At December 31, 2003, in addition to loans disclosed above as past due, nonaccrual or restructured, management also identified $3.8 million of loans to 12 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 loan on

nonaccrual status at December 31, 2003. 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 part.

The table below summarizes the approximate changes in nonaccrual loans for the years ended December 31, 2003 and 2002.

Changes in Nonaccrual Loans

Dollars in thousands	2003	2002
Balance, beginning of the year	$ 71,357	$ 38,563
Loans placed on nonaccrual	103,850	119,335
Loans from acquisitions		3,510
Charge-offs	(30,100)	(55,821)
Loans returned to accrual status	(3,016)	(5,705)
Repayments (including interest applied to principal) and sales	(99,818)	(26,861)
Transfers to ORE		(1,664)

Dollars in thousands	2003	2002
Balance, end of year	$ 42,273	$ 71,357

The additional interest income that would have been recorded from nonaccrual loans, if the loans had not been on nonaccrual status was $7.5 million, $3.0 million, and $7.3 million for the years ended December 31, 2003, 2002, and 2001, respectively. Interest payments received on nonaccrual loans are applied to principal unless there is no doubt as to ultimate full repayment of principal, in which case, the interest payment is recognized as interest income. Interest collected and applied to principal was $3.2 million, $2.6 million, and $6.1 million for the years ended December 31, 2003, 2002, and 2001, respectively, from collection of interest related to nonaccrual loans. Interest income not recognized on nonaccrual loans reduced the net interest margin by 7, 3, and 8 basis points for the years ended December 31, 2003, 2002, and 2001, respectively.

Other Real Estate (ORE)

Other real estate is comprised of real estate acquired in satisfaction of loans. The Company had no ORE at December 31, 2003 compared to $0.7 million a year ago. The Company's policy is to record these properties at estimated fair value, net of selling expenses, at the time they are transferred into ORE, thereby tying future gains or losses from sale or potential additional write-downs to underlying changes in the market.

Other Assets

Other assets include the following:

	Other Assets December 31,	
Dollars in thousands	**2003**	**2002**
Interest rate swap mark-to-market	$ 42,133	$ 56,690
Accrued interest receivable	43,980	45,124
Claim in receivership and other assets	12,151	23,142
Loans held-for-sale		18,155
Income tax refund	17,813	3,464
Other	55,708	40,191
Total other assets	$ 171,785	$ 186,766

The claim in receivership and other assets was acquired in the acquisition of The Pacific Bank. The reduction in 2003 was due to the claim in receivership being collected.

See "Asset/Liability Management" for a discussion of interest rate swaps which result in the swap mark-to-market asset of $42.1 million at December 31, 2003.

Off Balance Sheet

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit, 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 unfunded loan commitments aggregating $3,426.9 million at December 31, 2003. In addition, the Company had $418.6 million outstanding in bankers' acceptances and letters of credit of which $368.0 million relate to standby letters of credit at December 31, 2003. Substantially all of the Company's loan commitments are on a variable rate basis and are comprised of real estate and commercial loan commitments.

The Company has various contractual obligations that are recorded as liabilities in our consolidated financial statements. Other items, such as certain lease and purchase commitments are only required to be disclosed.

The following table summarizes our significant contractual obligations and commercial commitments at December 31, 2003 and the future periods in which such obligations are expected to be settled in cash. In addition, the table reflects the timing of principal payments in outstanding

borrowings. Additional details regarding these obligations are provided in footnotes to the financial statements, as referenced in the table.

Dollars in thousands	**2004**	**2005**	**2006**	**2007**	**2008**	**After 2008**	**Total**
Borrowings (Note 9)	$ 65,644	$ 3,701	$ 622	$ 156	$ 135,264	$ 386,027	$ 591,414
Operating lease commiments (Note 5)	22,735	23,028	21,526	20,027	18,521	100,510	206,347
Other (1)	7,322	7,154	6,915	6,063	5,376	10,752	43,582
Total contractual obligations (2)	$ 95,701	$ 33,883	$ 29,063	$ 26,246	$ 159,161	$ 497,289	$ 841,343

(1) Other firm commitments include commitments for computer system services

(2) Liabilities recorded on the balance sheet	$ 591,414
Commitments not recorded on the balance sheet	249,929
	$ 841,343

Deposits and Borrowed Funds

Core deposits, which include noninterest-bearing deposits and interest-bearing deposits excluding time deposits of $100,000 and over, provide a stable source of low cost funding. Average core deposits were $9,042.3 million in 2003 compared with $7,400.0 million in 2002. The increase was due primarily to internally generated growth.

Certificates of deposit of $100,000 or more totaled $940.2 million at December 31, 2003, of which $495.9 million mature within three months, $209.1 million mature within four to six months, $91.4 million mature within seven months to one year and $143.8 million mature beyond one year.

At December 31, 2003 and 2002, the aggregate amount of deposits by foreign depositors in domestic offices totaled $61.3 million and $87.3 million, respectively, the majority of which was interest bearing. Brokered deposits were $150.0 million and $160.1 million, at December 31, 2003 and 2002, respectively.

Short and long-term borrowed funds provided additional funding, albeit at a higher cost, to support loan and securities growth. Average borrowed funds were $793.5 million in 2003 compared with $1,078.3 million in 2002. Borrowed funds declined as deposits increased.

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, 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.

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 caused by the State of California's budget issues, (2) earthquake or other natural disasters impacting the condition of real estate collateral, (3) the effect of acquisitions and integration of acquired businesses, (4) the impact of proposed and/or recently adopted changes in regulatory, judicial, or legislative tax treatment of business transactions, particularly recently enacted California tax legislation and the subsequent December 31, 2003 announcement by the FTB regarding the taxation of REITs and RICs, and (5) an expansion of Bovine Spongiform Encephalopathy (better known as "Mad Cow" disease) could have the following consequences, any of which could hurt our business.

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for our products and services may decline; and
- Collateral for loans made by us, especially real estate, may 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 decreases 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 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