CITY NATIONAL CORP
Form 10-K
March 15, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No x

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

Indicate by check mark 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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x **Accelerated filer** o **Non-accelerated filer** o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of June 30, 2005, the aggregate market value of the registrant s common stock (Common Stock) held by non-affiliates of the registrant was approximately $2,969,919,704 based on the June 30, 2005 closing sale price of Common Stock of $71.71 per share as reported on the New York Stock Exchange.

As of March 1, 2006, there were 49,508,888 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 2006 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), a Delaware corporation organized in 1968, is a bank holding company for City National Bank (the Bank and together with the Corporation , the Company), which is the second largest independent commercial bank headquartered in California. The Bank, which was founded in 1953 and opened for business in January 1954, is a national banking association that conducts business in California and New York City. At December 31, 2005, the Company s total assets reached $14.6 billion. City National focuses on providing entrepreneurs, their businesses and their families with complete financial solutions. The organization s mission is to provide this banking and financial experience through an uncommon dedication to extraordinary service, proactive advice and total financial solutions. The Company provides banking, investment and trust services to our clients through the Bank and its non-banking subsidiaries. The Bank operates through 55 offices, including 12 full-service regional centers, in Southern California, the San Francisco Bay Area and New York City.

The Corporation was approved to become a financial holding company pursuant to the Gramm-Leach-Bliley Act (the GLB Act) in July 2005. Subject to the GLB Act and related rules and regulations, a financial holding company may engage in activities that are financial in nature or are incidental to financial activity, such as insurance underwriting and agency, securities underwriting, dealing and market making, sponsoring mutual funds and investment companies and merchant banking.

The Company is engaged in one operating segment: providing private and business banking and related financial services, including investment and trust services. The Bank s principal client base comprises small to mid-sized businesses, entrepreneurs, professionals, and affluent individuals. For 52 years, the Bank has served its clients through relationship banking. The Bank s value proposition is to provide the ultimate banking experience because of our depth of expertise, our breadth of resources, our California focus and location, our dedication to complete solutions, our relationship banking model and our integrated team approach. Through the use of private and commercial banking teams, product specialists and investment advisors, the Bank facilitates 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, equipment financing, asset-based lending, and other products and services. The Company also lends, invests, and provides services in accordance with its Community Reinvestment Act (CRA) commitment.

The Bank s Wealth Management division, and the Corporation s investment advisor subsidiaries make available the following investment advisory and wealth management resources and expertise to the Company s clients: 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. At December 31, 2005, City National had more than $39 billion in client investment assets under management or administration (excluding the minority-owned asset managers). The Corporation s investment advisor subsidiaries include nine majority-owned asset management firms and minority interests in two additional asset management firms. The Bank also advises and makes available mutual funds under the name of CNI Charter Funds.

At December 31, 2005, the Company had 2,539 full-time equivalent employees.

Competition

There is significant competition among commercial banks and other financial institutions in the Corporation s market areas. California and New York are both highly competitive environments for

banking and other financial organizations providing private and business banking and wealth management services. The Bank faces competitive credit and pricing pressure as it competes with other banks and financial organizations. The Company s performance is also influenced by California s economy. As a result of the GLB Act, the Corporation also competes with other providers of financial services such as money market mutual funds, securities firms, credit unions, insurance companies and other financial services companies. Furthermore, interstate banking legislation has eroded the geographic constraints on the financial services industry.

Our ability to compete effectively is due to our provision of personalized services resulting from management s knowledge and awareness of its clients and its market areas of California and New York. We believe this relationship approach and knowledge provide a business advantage in providing high client satisfaction and serving the small to mid-sized businesses, entrepreneurs, professionals and other individuals that comprise the Company s customer base. In addition, our ability to compete depends on our ability to continue to attract and retain our senior management and other key colleagues.

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. See Item 1A - Risk Factors.

The Company s business and earnings are affected by the monetary and fiscal policies of the federal government and its agencies, particularly the Board of Governors of the Federal Reserve System (the Federal Reserve). The Federal Reserve regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the Federal Reserve are its open-market operations in U.S. Government securities, including adjusting the required level of reserves for depository institutions subject to its reserve requirements, and 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.

Supervision and Regulation

General

The Corporation, the Bank and the Corporation s non-banking subsidiaries are subject to extensive regulation under both federal and state law. This regulation is intended primarily for the protection of depositors, the deposit insurance fund, and the banking system as a whole, and not for the protection of shareholders of the Corporation. Set forth below is a summary description of the significant laws and regulations applicable to the Corporation and the Bank. The description is qualified in its entirety by reference to the applicable laws and regulations.

Regulatory Agencies

The Corporation is a legal entity separate and distinct from the Bank and its other subsidiaries. As a financial holding company and a bank holding company, the Corporation is regulated under the Bank Holding Company Act of 1956, as amended (the BHC Act), and is subject to supervision, regulation and inspection by the Federal Reserve.

The Bank, as a national banking association, is subject to broad federal regulation and oversight extending to all its operations by the Office of Comptroller of the Currency (OCC), its primary regulator, and also by the Federal Reserve and the Federal Deposit Insurance Corporation.

The Corporation s non-bank subsidiaries are also subject to regulation by the Federal Reserve Board and other federal and state agencies. 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 our asset management firms, must register with the Securities and Exchange Commission (SEC). City National Securities, Inc. (CNS) is regulated by the SEC, the National Association of Securities Dealers, Inc. (NASD) and state securities regulators.

The Corporation

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. As a result of the GLB Act, which amended the BHC Act, bank holding companies that are financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board in consultation with the OCC) or (ii) complementary to a financial activity and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve Board). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and agency, and making merchant banking investments.

If a bank holding company seeks to engage in the broader range of activities that are permitted under the BHC Act for financial holding companies, (i) all of its depository institution subsidiaries must be well capitalized and well managed and (ii) it must file a declaration with the Federal Reserve Board that it elects to be a financial holding company. A depository institution subsidiary is considered to be well capitalized if it satisfies the requirements for this status discussed in the section captioned Capital Adequacy and Prompt Corrective Action, included elsewhere in this item. A depository institution subsidiary is considered well managed if it received a composite rating and management rating of at least satisfactory in its most recent examination. In addition, the subsidiary depository institution must have received a rating of at least satisfactory in its most recent examination under the Community Reinvestment Act. (See the section captioned Community Reinvestment Act included elsewhere in this item.) The Corporation s declaration to become a financial holding company was declared effective by the Federal Reserve Board on July 15, 2005.

Financial holding companies that do not continue to meet all of the requirements for such status will, depending on which requirement they fail to meet, face not being able to undertake new activities or acquisitions that are financial in nature, or losing their ability to continue those activities that are not generally permissible for bank holding companies. In addition, failure to satisfy conditions prescribed by the Federal Reserve to correct any such requirements could result in orders to divest banking subsidiaries or to cease engaging in activities other than those closely related to banking under the BHC Act.

The BHC Act generally limits acquisitions by bank holding companies that are not qualified as financial holding companies to commercial banks and companies engaged in activities that the Federal

Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. Financial holding companies like the Corporation are also permitted to acquire companies engaged in activities that are financial in nature and in activities that are incidental and complementary to financial activities.

The BHC Act, the Federal Bank Merger Act, and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the Federal Reserve Board for the direct or indirect acquisition of more than 5.0% of the voting shares of a commercial bank or its parent holding company. Under the Federal Bank Merger Act, the prior approval of the OCC is required for a national bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant s performance record under the Community Reinvestment Act (see the section captioned Community Reinvestment Act included elsewhere in this item) and fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

Source of Strength Doctrine

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. Under this source of strength doctrine, a bank holding company is expected to stand ready to use its available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity, and to maintain resources and the capacity to raise capital that it can commit to its subsidiary banks. Furthermore, the Federal Reserve has the right to order a bank holding company to terminate any activity that the Federal Reserve believes is a serious risk to the financial safety, soundness or stability of any subsidiary bank.

The Bank

The OCC has extensive enforcement authority over all national banks, including the Bank. If, as a result of an examination of a bank, the OCC determines 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 OCC. 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.

The OCC, as well as other federal agencies, has adopted regulations and guidelines establishing safety and soundness standards, including but not limited to such matters as loan underwriting and documentation, internal controls and audit systems, interest rate risk exposure, asset quality and earnings and compensation and other employee benefits.

Various other 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.

Anti-Money Laundering

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The Bank Secrecy Act of 1970 (BSA) and subsequent laws and regulations require the Bank to take steps to prevent the use of the Bank or its systems from facilitating the flow of illegal or illicit money and to file suspicious activity reports. Those requirements include ensuring effective Board and management oversight, establishing policies and procedures, developing effective monitoring and reporting capabilities, ensuring adequate training and establishing a comprehensive internal audit of BSA compliance activities. The USA Patriot Act of 2001 (Patriot Act) significantly expanded the anti-money laundering (AML) and financial transparency laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Regulations promulgated under the Patriot Act impose various requirements on financial institutions, such as standards for verifying customer identification at account opening and maintaining expanded records (including Know Your Customer and Enhanced Due Diligence practices) and other obligations to maintain appropriate policies, procedures and controls to aid the process of preventing, detecting, and reporting money laundering and terrorist financing. The Patriot Act also applies BSA procedures to broker-dealers. An institution subject to the Patriot Act must provide AML training to employees, designate an AML compliance officer and annually audit the AML program to assess its effectiveness. The OCC continues to issue regulations and new guidance with respect to the application and requirements of BSA and AML.

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, 2005, the Bank could have paid dividends of $300.7 million to the Corporation without obtaining prior approval of its banking regulators. In addition, federal bank regulatory authorities can 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 appropriate federal regulatory authorities have indicated that paying dividends that deplete a bank s capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings.

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 11 to Notes to Consolidated Financial Statements on page A-26 of this report.

Federal law also provides that extensions of credit and other transactions between the Bank and the Corporation or one of its non-bank subsidiaries must be on terms and conditions, including credit standards, that are substantially the same or at least as favorable to the Bank as those prevailing at the time for comparable transactions involving other non-affiliated companies, or, in the absence of comparable transactions, on terms and conditions, including credit standards, that in good faith would be offered to, or would apply to, non-affiliated companies. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services.

Capital Adequacy and Prompt Corrective Action

Each federal banking regulatory 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 regulatory 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 indicates 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 is 3 percent. For all banking organizations other than those rated composite 1 under the CAMELS system, the minimum leverage ratio 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, 2005, 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 58 of this report.

The Federal Deposit Insurance Act requires federal bank regulatory agencies to take prompt corrective action with respect to FDIC-insured depository institutions that do not meet minimum capital requirements. A depository institution s treatment for purposes of the prompt corrective action provisions will depend on how its capital levels compare to various capital measures and certain other factors, as established by regulation.

The existing U.S. federal bank regulatory agencies risk-based capital guidelines are based upon the 1988 capital accord (Basel I) of the Basel Committee on Banking Supervision (BIS). In June 2004, BIS issued a revised framework for measuring capital adequacy (Basel II) including setting capital requirements for operational risk and refining the existing capital requirements for credit risk and market risk. Basel II promotes risk management practices and includes a greater use of assessments of risk provided by banks internal systems as inputs to capital calculations. Operational risk is defined to mean the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems in connection with external events. Regulations for compliance with Basel II in the United States and a timeline for implementation are being prepared by federal regulators. It is intended that only larger bank holding companies will be required to adopt the Basel II standards.

In October 2005, the Federal Reserve issued proposed revisions to Basel I, known as Basel IA, which set forth potential revisions to the U.S. risk-based capital rules for banking organizations. Basel IA would apply more widely to banks, bank holding companies and savings associations than Basel II and is intended to align risk-based capital requirements with the risk inherent in various exposures. The Corporation continues to monitor and analyze both Basel IA and Basel II and their implementation, including what effect the new capital requirements of Basel IA and/or Basel II may have on the Corporation s minimum capital requirements and on its risk management policies.

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, 2005 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 2005, this premium was approximately 1.4 cents per $100 of insured deposits.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Act permits banks and bank holding companies from any state to acquire banks located in any other state, subject to certain conditions, including certain nationwide and state-imposed concentration limits. The Company also has the ability, subject to certain restrictions, to acquire branches outside its home state by acquisition or merger. The establishment of new interstate branches is also possible in those states with laws that expressly permit de novo branching. Interstate branches are subject to certain laws of the states in which they are located. 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 engage in additional interstate branch acquisitions.

Community Reinvestment Act

Under the Community Reinvestment Act (CRA), the Bank has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with CRA. CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities and to take that record into account in its evaluation of certain applications by such institution, such as applications to grant charters, branches and other deposit facilities, relocations, mergers, consolidations and acquisitions or engage in certain activities pursuant to the GLB Act. An unsatisfactory rating may be the basis for denying the application. Based on the most current examination report dated January 13, 2003, the Bank was rated satisfactory .

Consumer Protection Laws

The Company is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, and various state law counterparts.

In addition, federal law and certain state laws (including California) currently contain customer privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose non-public information about consumers to affiliated companies and non-affiliated third parties. These rules require disclosure of privacy policies to customers and, in some circumstance, allow consumers to prevent disclosure of certain personal information to affiliates or non-affiliated third parties by means of opt out or opt-in authorizations. Pursuant to the GLB Act and certain state laws (including California) companies are required to notify clients of security breaches resulting in unauthorized access to their personal information.

Securities and Exchange Commission

The Sarbanes-Oxley Act (SOX) of 2002 imposed significant new responsibilities on publicly-held companies such as the Corporation, particularly in the area of corporate governance. The Company, like other public companies, has reviewed and reinforced its internal controls and financial reporting procedures in response to the various requirements of SOX and implementing regulations issued by the SEC and the New York Stock Exchange. The Company always emphasized best practices in corporate governance and has continued to do so in compliance with these new legal requirements, which are intended to enable stockholders to more easily and efficiently monitor the performance of companies and directors.

The SEC regulations applicable to the Company s investment advisers cover all aspects of the investment advisory business, including compliance requirements, limitations on fees, record-keeping, reporting and disclosure requirements and general anti-fraud prohibitions.

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 as of January 31, 2006, 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	56	President, City National Corporation since May 2005; Chief Executive Officer, City National Corporation and Chairman of the Board and Chief Executive Officer, City National Bank since October 1995; Vice Chairman of City National Corporation October 1995 to May 2005
Bram Goldsmith	83	Chairman of the Board, City National Corporation
Christopher J. Carey	51	Executive Vice President and Chief Financial Officer, City National Corporation and City National Bank since July 2004; Executive Vice President and Chief Financial Officer, Provident Financial Group, November 1998 to June 2004
Christopher J. Warmuth	51	Executive Vice President, City National Corporation and President, City National Bank since May 2005; Executive Vice President and Chief Credit Officer, City National Bank June 2002 to May 2005; 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), March 1998 to March 2002
Jan R. Cloyde	55	Executive Vice President, City National Corporation and City National Bank, and Director of Banking Services, City National Bank since October 1998
Michael B. Cahill	52	Executive Vice President, Secretary and General Counsel, City National Bank and City National Corporation since June 2001; Interim Senior Risk Management Officer, October 2003 to July 2004, President and CEO, Avista Ventures, Inc., and Pentzer Corporation, 1999 to 2001
Nancy Gilson	50	Controller, City National Corporation and City National Bank since April 2005; Assistant Controller, City National Bank, December 2004 to April 2005; Vice President, Financial Reporting, California National Bank, October 2002 to December 2004; Vice President, Controller, California National Bank, March 1997 to September 2002
James Dowd	53	Senior Vice President and Interim Chief Credit Officer, City National Bank since May 2005; Senior Vice President, Deputy Chief Credit Officer, City National Bank, October 2002 to May 2005; Senior Vice President, Senior Credit Administrator, City National Bank, 2000 to October 2002

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 the Investor Relations page of its web site as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. More information about the Company can be obtained by reviewing the Company s SEC filings on its web site. Information about the Corporation s Board of Directors (the Board) and its committees and the Company s corporate governance policies and practices is available on the Corporate Governance section of the Investor Relations page of the Company s 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 1A Risk Factors

Forward-Looking Statements

This report and other reports and statements issued by the Company and its officers from time to time contain forward-looking statements 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, estima 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. By their nature, forward-looking statements are subject to risks, uncertainties, and assumptions. These statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements are made or to update earnings guidance including the factors that influence earnings. A number of factors, many of which are beyond the Company s ability to control or predict, could cause future results to differ materially from those contemplated by such forward-looking statements. These factors include, without limitation, the significant factors set forth below.

Factors That May Affect Future Results

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 fluctuate. This causes our spread to increase or decrease and affects our net interest income. In addition, interest rates affect how much money we lend, and changes in interest rates may negatively affect deposit growth.

Significant changes in banking laws or regulations could materially affect our business. The banking industry is subject to extensive federal and state regulations, and significant new laws or changes in, or repeals of, existing laws may cause results to differ materially. Also, federal monetary policy,

particularly as implemented through the Federal Reserve System, significantly affects our credit conditions, primarily through open market operations in U.S. government securities, the discount rate for member bank borrowing, and bank reserve requirements. A material change in these conditions would affect our results. Parts of our business are also subject to federal and state securities laws and regulations. Significant changes in these laws and regulations would also affect our business. For further discussion of the regulation of financial services, see Supervision and Regulation and the discussion under Item 1, Business, Economic Conditions, Government Policies, Legislation and Regulation.

Increased competition from financial service companies and other companies that offer banking services could negatively impact our business. Increased competition in our market may result in reduced loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the banking services that we offer in our service area. These competitors include national, regional, and community banks. We also face competition from many other types of financial institutions, including, without limitation, savings and loans, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks, and other financial intermediaries. In addition, technological advances and the growth of e-commerce have made it possible for non-depository institutions to offer products and services that were traditionally offered only by banks.

We also face competition for talent. Our success depends, in large part, on our ability to hire and keep key people. Competition for the best people in most businesses in which we engage can be intense. If we are unable to attract and retain talented people, our business could suffer.

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

The Company continually monitors changes in the economy, particularly housing prices and unemployment rates. We also monitor the value of collateral for loans made by us, such as real estate. A decline in value of such collateral would in turn reduce clients borrowing power and reduce the value of assets associated with our existing loans.

General business and economic conditions may significantly affect our earnings. Our business and earnings are sensitive to general business and economic conditions. These conditions include the slope of the yield curve, inflation, the money supply, the value of the U.S. dollar as compared to foreign currencies, fluctuations in both debt and equity markets, and the strength of the U.S. economy and the local economies in which we conduct business. Changes in these conditions may adversely affect demand for our products and services. A prolonged economic downturn could increase the number of customers who become delinquent or default on their loans. An increase in delinquencies or defaults could result in a higher level of nonperforming assets, charge-offs and provision for loan losses, which could adversely affect our earnings.

Negative public opinion could damage our reputation and adversely affect our earnings. Reputational risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from the actual or perceived manner in which we conduct our business activities, including activities in our private and business banking operations and investment and trust operations; our management of actual or potential conflicts of interest and ethical issues; and our protection of confidential customer information. Negative public opinion can adversely affect our ability to keep and attract customers and can expose us to litigation and regulatory action. We take steps to

minimize reputation risk in the way we conduct our business activities and deal with our customers and communities.

Item 1B Unresolved Staff Comments

The Company has received no written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of its 2005 fiscal year and that remain unresolved.

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. As of December 31, 2005, the Bank owned one other banking office property in Riverside, California. The Company also actively maintains operations in 55 banking offices and certain other properties.

The Bank leases approximately 386,654 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 S. Flower Street, renamed City National Plaza in January 2005. The Bank commenced occupancy in the south office tower (named City National Tower) in the third quarter of 2004. City National Tower serves as the Bank s new administrative center, bringing together more than 24 departments, from Cash Management, Deposit Services and Finance to Human Resources, Legal, Compliance, Community Reinvestment and select areas of Wealth Management Services. In 2005, the Bank relocated its banking office previously located in the nearby Library Tower banking office to the newly renovated 6,600-square-foot three-story plaza building that is located adjacent to City National Tower. City National Tower and the plaza banking office together form the Company s expanded Downtown Los Angeles Regional Center, offering extensive private and business banking and wealth management capabilities.

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 $25 million, with lease expiration dates for office facilities ranging from 2006 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, 2005, 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, 2005.

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
2005			
March 31	$ 71.35	$ 67.49	0.36
June 30	72.90	66.84	0.36
September 30.	76.10	68.42	0.36
December 31	75.12	66.39	0.36
2004			
March 31	$ 63.55	$ 57.69	0.32
June 30	65.95	57.36	0.32
September 30.	68.65	61.87	0.32
December 31	70.99	64.34	0.32

As of March 1, 2006, the closing price of the Corporation s stock on the New York Stock Exchange was $76.68 per share. As of that date, there were approximately 2,147 holders of record of the Corporation s common stock. On January 18, 2006, the Board of Directors authorized a regular quarterly cash dividend on its common stock at a rate of $0.41 per share payable on February 15, 2006 to all shareholders of record on February 1, 2006.

For a discussion of dividend restrictions on the Corporation s common stock, see Note 11 to Notes to Consolidated Financial Statements on page A-26 of this report.

The following table provides information about purchases by the Company of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the quarter ended December 31, 2005.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
11/01/05 - 11/30/05	4,754			379,000
12/01/05 - 12/31/05	7,260			379,000
	12,014 (1)		(2)	379,000 (3)

(1) During the fourth quarter of 2005 12,014 shares were received in payment for the exercise price of stock options.

(2) During the fourth quarter of 2005, the Company did not make any repurchases. Through December 31, 2005, the Company bought back 630,500 shares at an average price of $69.45 per share.

(3) Remaining shares available for repurchase pursuant to the program approved on May 24, 2004 by the Company s Board of Directors. Unless terminated earlier by resolution of the Company s Board of Directors, the program will expire when the Company has repurchased all shares authorized for repurchase thereunder.

Item 6. Selected Financial Data

The information required by this item appears on page 24, 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 25 through 59, 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 41 through 45, 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 page 60 under the captions 2005 Quarterly Operating Results and 2004 Quarterly Operating Results, and on page A-5 through A-34 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 the supervision and with the participation of the Company s management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities and Exchange Act of 1934 (the Exchange Act)). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective.

Internal Control over Financial Reporting

Management s Report on Internal Control over Financial Reporting.

Management s Report on Internal Control Over Financial Reporting appears on page A-1 of this report. The Company s independent registered public accounting firm, KPMG LLP, has issued an audit report on management s assessment of the Company s internal control over financial reporting. That report appears on page A-2.

Changes in Internal Controls

There was no change in the Company s internal control over financial reporting that occurred during the Company s fourth fiscal quarter that has materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G(3).

Code of Ethics for Senior Financial Officers

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 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 and, as permitted by applicable SEC rules, will do so on our web site at www.cnb.com as applicable. There were no waivers or amendments to the Code of Ethics in 2005.

The additional information required by this item will appear in the Corporation s definitive proxy statement for the 2006 Annual Meeting of Stockholders (the 2006 Proxy Statement), and such information either shall be (i) deemed to be incorporated herein by reference from that portion of the 2006 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 2006 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2006 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 2006 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2006 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 2006 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2006 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 5 to Notes to Consolidated Financial Statements on page A-17 of this report.

Item 14. Principal Accountant Fees and Services.

The information required by this item will appear in the 2006 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the 2006 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 and Financial Statement Schedules

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

1. Financial Statements:

Management s Report on Internal Control Over Financial Reporting	A-1
Report of Independent Registered Public Accounting Firm	A-2
Report of Independent Registered Public Accounting Firm	A-4
Consolidated Balance Sheet at December 31, 2005 and 2004	A-5
Consolidated Statement of Income for each of the years in the three-year period ended December 31, 2005	A-6
Consolidated Statement of Cash Flows for each of the years in the three-year period ended December 31, 2005	A-7
Consolidated Statement of Changes in Shareholders Equity and Comprehensive Income for each of the years in the three-year period ended December 31, 2005	A-8
Notes to the Consolidated Financial Statements	A-9

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, 2004).

(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, 2004).

(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, 2004).

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 Bylaws (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, 2004).

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)* 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, 2004).

(c)* 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).

(d)* 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).

(e)* 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 Annual Report on Form 10-K for the year ended December 31, 2004).

(f)* 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).

(g)* Intentionally Omitted.

(h)* Intentionally Omitted.

(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
(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 Registrants Annual Report on Form 10-K for the year ended December 31, 2004).
(n)* Amended and Restated 2002 Omnibus Plan (This Exhibit is incorporated by reference from the Registrant s Proxy Statement filed with the SEC for the Annual Meeting of Shareholders held on April 28, 2004).
(o)* Amended and Restated 1999 Variable Bonus Plan (This Exhibit is incorporated by reference from the Registrant s Proxy Statement filed with the SEC for the Annual Meeting of Shareholders held on April 28, 2004).
(p)* Form of Indemnification Agreement for directors and executive officers of the Company. (This Exhibit is incorporated by reference from the Registrant s Annual Report on Form 10-K for the year ended December 31, 2004).
(q)* 2000 City National Bank Executive Deferred Compensation Plan.
(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, 2005).
(s)* 2000 City National Bank Director Deferred Compensation Plan.
(t)* City National Bank Executive Management Bonus Plan.
(u)* City National Corporation 2001 Stock Option Plan.
(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) (This Exhibit is incorporated by reference from the Registrant s Annual Report on Form 10-K for the year ended December 31, 2003).
(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)) (This Exhibit is incorporated by reference from the Registrant s Annual Report on Form 10-K for the year ended December 31, 2003).
(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)) (This Exhibit is incorporated by reference from the Registrant s Annual Report on Form 10-K for the year ended December 31, 2003).
(y) Lease Supplement, dated May 28, 2003 (the 2003 Lease Supplement), by and between Citinational Buckeye Building Co 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, 2003).
(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)) (This Exhibit is incorporated by reference from the Registrant s Annual Report on Form 10-K for the year ended December 31, 2003).

10.1*	Form of Restricted Stock Unit Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan (This Exhibit is incorporated by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.2*	Form of Stock Option Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan (Compensation Committee and Board Approval) (This Exhibit is incorporated by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.3*	Form of Stock Option Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan (Compensation Committee Approval)) (This Exhibit is incorporated by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.4*	Form of Restricted Stock Award Agreement Under the City National Corporation 2002 Amended and Restated Omnibus Plan) (This Exhibit is incorporated by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.5*	Form of Director Stock Option Agreement Under the City National Corporation Amended and Restated 2002 Omnibus plan (This Exhibit is incorporated by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.6*	City National Corporation 2005 Compensatory Agreement with CEO and Named Executive Officers filed in current report on Form 8-K dated March 11, 2005 (This Exhibit is incorporated by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).
10.7*	Compensatory Arrangement with President of City National Bank filed in current report on Form 8-K dated June 1, 2005. (This Exhibit is incorporated by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.8*	Amendment to Employment Agreement dated as of May 15, 2005 by and between Bram Goldsmith and City National Corporation and City National Bank. (This Exhibit is incorporated by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
10.9*	First Amendment to the City National Corporation Amended and Restated 2002 Omnibus Plan. (This Exhibit is incorporated by reference from the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
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 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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement

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,
President and Chief Executive Officer

March 6, 2006

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)	President/Chief Executive Officer	March 6, 2006
/s/ CHRISTOPHER J. CAREY Christopher J. Carey (Principal Financial Officer and Principal Accounting Officer)	Executive Vice President and Chief Financial Officer	March 6, 2006
/s/ BRAM GOLDSMITH Bram Goldsmith	Chairman of the Board and Director	March 6, 2006
/s/ CHRISTOPHER J. WARMUTH Christopher J. Warmuth	Executive Vice President/Director	March 6 2006
/s/ RICHARD L. BLOCH Richard L. Bloch	Director	March 6, 2006
/s/ KENNETH L. COLEMAN Kenneth L. Coleman	Director	March 6, 2006
/s/ MICHAEL L. MEYER Michael L. Meyer	Director	March 6, 2006

/s/ RONALD L. OLSON Ronald L. Olson	Director	March 6, 2006
/s/ PETER M. THOMAS Peter M. Thomas	Director	March 6, 2006
/s/ ANDREA L. VAN DE KAMP Andrea L. Van de Kamp	Director	March 6, 2006
/s/ KENNETH ZIFFREN Kenneth Ziffren	Director	March 6, 2006

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FINANCIAL HIGHLIGHTS

Dollars in thousands, except per share amounts	2005	2004	Percentage Change
FOR THE YEAR			
Net income	$ 234,735	$ 206,322	14
Net income per common share, basic	4.77	4.21	13
Net income per common share, diluted	4.60	4.04	14
Dividends per common share	1.44	1.28	13
AT YEAR END (1)			
Assets	$ 14,581,860	$ 14,231,513	2
Securities	4,058,605	4,190,176	(3)
Loans	9,265,602	8,481,277	9
Deposits	12,138,472	11,986,915	1
Shareholders equity	1,458,008	1,348,535	8
Book value per common share	29.55	27.39	8
AVERAGE BALANCES (1)			
Assets	$ 14,161,272	$ 13,395,995	6
Securities	4,075,948	3,689,024	10
Loans	8,875,358	8,106,657	9
Deposits	11,778,839	11,275,017	4
Shareholders equity	1,389,731	1,262,562	10
SELECTED RATIOS			
Return on average assets	1.66 %	1.54 %	8
Return on average shareholder s equity	16.89	16.34	3
Corporation s tier 1 leverage ratio	8.82	7.83	13
Corporation s tier 1 risk-based capital ratio	12.33	11.51	7
Corporation s total risk-based capital ratio	15.53	15.11	3
Period-end shareholders equity to period-end assets	10.00	9.48	5
Dividend payout ratio per share	30.35	30.50	(0)
Net interest margin	4.79	4.54	6
Efficiency ratio	53.30	53.89	(1)
ASSET QUALITY RATIOS			
Nonaccrual loans to total loans	0.16	0.41	(61)
Nonaccrual loans and OREO to total loans and OREO	0.16	0.41	(61)
Allowance for loan losses to total loans	1.66	1.75	(5)
Allowance for loan losses to nonaccrual loans	1,069.33	428.92	149
Net recoveries / (charge-offs) to average loans	0.10	(0.07)	NM
AT YEAR END			
Assets under management	$ 19,256,202	$ 16,185,234	19
Assets under management or administration	39,588,954	35,092,735	13

NM Not Meaningful

(1) Certain prior period data has been adjusted to conform to the current year presentation.

SELECTED FINANCIAL INFORMATION

Dollars in thousands, except per share data	As of or for the year ended December 31, 2005	2004	2003	2002	2001
Statement of Income Data:					
Interest income	$ 718,552	$ 604,325	$ 575,725	$ 609,700	$ 625,248
Interest expense	106,125	58,437	61,110	94,444	191,094
Net interest income	612,427	545,888	514,615	515,256	434,154
Provision for credit losses			29,000	67,000	35,000
Noninterest income	208,189	184,265	177,225	146,293	132,384
Noninterest expense	438,385	395,410	364,178	331,646	313,395
Minority interest	5,675	4,992	4,039	945	
Income before taxes	376,556	329,751	294,623	261,958	218,143
Income taxes	141,821	123,429	107,946	78,858	71,973
Net income	$ 234,735	$ 206,322	$ 186,677	$ 183,100	$ 146,170
Adjusted net income (1)	$ 234,735	$ 206,322	$ 186,677	$ 183,100	$ 159,038
Per Share Data:					
Net income per share, basic	4.77	4.21	3.84	3.69	3.05
Net income per share, diluted	4.60	4.04	3.72	3.56	2.96
Adjusted net income per share, diluted (1)	4.60	4.04	3.72	3.56	3.22
Dividends per share	1.44	1.28	0.97	0.78	0.74
Book value per share	29.55	27.39	24.85	22.66	18.50
Shares used to compute income per share, basic	49,159	48,950	48,643	49,563	47,896
Shares used to compute income per share, diluted	51,062	51,074	50,198	51,389	49,376
Balance Sheet Data At Period End:					
Assets	$ 14,581,860	$ 14,231,513	$ 13,028,213	$ 11,878,296	$ 10,184,601
Securities (1)	4,058,605	4,190,176	3,457,189	2,398,867	1,893,105
Loans (1)	9,265,602	8,481,277	7,882,742	7,999,470	7,159,206
Interest-earning assets (1)	13,522,010	13,334,815	11,985,678	10,858,337	9,447,311
Deposits	12,138,472	11,986,915	10,937,063	9,839,698	8,131,202
Shareholders equity	1,458,008	1,348,535	1,219,256	1,109,959	890,577
Balance Sheet Data Average Balances:					
Assets	$ 14,161,272	$ 13,395,995	$ 12,156,145	$ 10,899,670	$ 9,336,448
Securities (1)	4,075,948	3,689,024	2,976,741	1,977,948	1,680,973
Loans (1)	8,875,358	8,106,657	7,729,150	7,822,653	6,713,315
Interest-earning assets (1)	13,048,298	12,322,702	11,159,034	9,996,998	8,520,242
Deposits	11,778,839	11,275,017	10,045,267	8,639,546	7,067,984
Shareholders equity	1,389,731	1,262,562	1,147,477	1,049,393	825,344
Asset Quality:					
Nonaccrual loans	$ 14,400	$ 34,638	$ 42,273	$ 71,357	$ 38,563
OREO				670	10
Total nonaccrual loans and OREO	$ 14,400	$ 34,638	$ 42,273	$ 72,027	$ 38,573
Performance Ratios:					
Return on average assets	1.66 %	1.54 %	1.54 %	1.68 %	1.57 %
Return on average shareholders equity	16.89	16.34	16.27	17.45	17.71
Return on average assets adjusted (1)	1.66	1.54	1.54	1.68	1.70
Return on average shareholders equity adjusted (1).	16.89	16.34	16.27	17.45	19.27
Net interest spread	3.99	4.11	4.29	4.65	3.95
Net interest margin	4.79	4.54	4.74	5.30	5.26
Period-end shareholders equity to period-end assets	10.00	9.48	9.36	9.34	8.74
Dividend payout ratio, per share	30.35	30.50	25.33	21.10	24.26
Adjusted dividend payout ratio per share (1)	30.35	30.50	25.33	21.10	22.30
Efficiency ratio	53.30	53.89	52.13	49.20	54.08
Efficiency ratio adjusted (1)	53.30	53.89	52.13	49.20	51.86
Asset Quality Ratios:					
Nonaccrual loans to total loans	0.16 %	0.41 %	0.54 %	0.89 %	0.54 %
Nonaccrual loans and OREO to total loans and OREO	0.16	0.41	0.54	0.90	0.54
Allowance for loan losses to total loans	1.66	1.75	1.98	1.96	1.88
Allowance for loan losses to nonaccrual loans	1,069.3	428.9	369.1	219.5	349.0
Net recoveries / (charge-offs) to average loans	0.10	(0.07)	(0.36)	(0.69)	(0.41)

(1) Certain prior period data has been adjusted to conform to the current year presentation Adjusted balances also reflect the elimination of goodwill amortization of $12,868 for the year ended December 31, 2001 to reflect all periods on a comparable basis.

MANAGEMENT S DISCUSSION AND ANALYSIS

OVERVIEW

City National Corporation and subsidiaries (the Company), through its primary subsidiary, City National Bank, (the Bank) provide private and business banking services, 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-size businesses, entrepreneurs, professionals, and affluent individuals. For over fifty years, the Bank has served 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 clients use, 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 commitment. Through the Company s various asset management firms, subsidiaries of the Corporation, and Wealth Management Services, 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 markets mutual funds under the name of CNI Charter Funds.

The Corporation is the holding company for the Bank. References to the Company mean the Corporation and its subsidiaries including the Bank. The financial information presented herein includes the accounts 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 page 59 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 23 percent, 16 percent, and 23 percent, respectively. The growth primarily reflects the successful sales efforts of the Company s colleagues, but was also augmented by a Bank acquisition in that period, as described below. The Corporation has not made any acquisitions since 2003 but 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 managed assets of approximately $14.0 billion as of December 31, 2005. The purchase price was $49.0 million, comprised of cash and the assumption of approximately $7.5 million of debt. The acquisition resulted in $25.8 million in customer contract intangibles, which is being amortized over 20 years, and $21.5 million in goodwill.

CAPITAL ACTIVITY

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. The buyback was completed in 2004 at an average cost of $46.55 per share. 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. In 2004, 490,500 shares were repurchased under this program, and the remaining 9,500 shares were repurchased in 2005. In March 2004, the Board of Directors authorized the repurchase of an additional one million shares of City National Corporation stock, to follow the completion of the July 15, 2003 buyback initiative. In 2005, 630,500 shares were repurchased at an average cost of $69.45 (including the 9,500 shares mentioned above) leaving 379,000 shares available to be repurchased. 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 February 2006, 41,200 shares were repurchased at an average cost of $73.64 per share. At February 28, 2006, 337,800 shares were available for repurchase.

The Corporation paid dividends of $1.44 per share of common stock in 2005 and $1.28 per share of common stock in 2004. On January 18, 2006, the Board of Directors authorized a regular quarterly cash dividend on common stock at an increased rate of $0.41 per share to shareholders of record on February 1, 2006 payable on February 15, 2006. This reflects a 14 percent increase over the $0.36 per share paid in November 2005.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of City National Corporation (the Corporation) and of the Bank and their subsidiaries conform to accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. The material estimates included in the financial statements relate to the allowance for loan losses, the reserve for off-balance sheet credit commitments and the valuation of financial instruments.

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. 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. Trading securities are valued at fair value with any unrealized gains or losses included in income.

If available, quoted market prices provide the best indication of value. If quoted market prices were not available for fixed-maturity securities, the Company would discount the expected cash flows using market interest rates commensurate with the credit quality and maturity of the investments. Alternatively, matrix or model pricing would 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 investments, 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 global, regional or specific issuer-related economic conditions 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 charge is included in income.

Accounting for the allowance for loan losses and reserve for off-balance sheet credit commitments

The Company accounts for the credit risk associated with lending activities through its allowances for loan losses, reserve for off-balance sheet credit commitments and provision for credit losses. The provision is the expense recognized in the income statement to adjust the allowance and reserve to the levels deemed appropriate by management, as determined through application of the Company s allowance methodology procedures. The provision for credit losses reflects management s judgment of the adequacy of the allowance for loan losses and the reserve for off-balance sheet credit commitments. It is determined through quarterly analytical reviews of the loan and commitment portfolios 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 review process and that of its regulators. As conditions change, our level of provisioning and the allowance for loan losses and reserve for off-balance sheet credit commitments may change.

Larger-balance, non-homogenous exposures are individually 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 loan losses and the reserve for off-balance sheet credit commitments attributed to these loans are established via a process that considers all available evidence, including, as appropriate, the present value of the expected future cash flows discounted using the loan s contractual effective rate, the secondary market value of the loan and the fair value of collateral. 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.

Each portfolio of smaller balance, homogeneous loans, including residential first mortgages, installment, revolving credit and most other consumer loans, is collectively evaluated for loss potential. The allowance for loan losses and reserve for off-balance sheet credit commitments for these loans 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, as well as analyses that reflect current trends and conditions. Management also considers overall portfolio indicators, including historical credit losses, delinquent, nonperforming 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 imprecision.

The quantitative portion of the allowance for loan losses is adjusted for qualitative factors to account for imprecision and to incorporate the range of probable outcomes inherent in the estimates used for the allowance. The qualitative portion of the allowance attempts to incorporate the risks inherent in the portfolio, economic uncertainties, historical loss experience, and other subjective factors including industry trends.

The Company has not recorded a provision for credit losses since the second quarter of 2003. This is attributable to the continued strong credit quality of the Company s loan portfolio, rate of loan growth, changing economic conditions and management s ongoing assessment of the credit quality of the loan portfolio. The key indicators of the improving asset quality of the loan portfolio during the period were an improvement in credit risk ratings, a decline in nonaccrual loans and loan recoveries that exceeded loan charge-offs.

Accounting for derivatives and hedging activities

As part of its asset and liability management strategies, the Company uses interest rate swaps to reduce cash flow variability and to moderate changes in the fair value of certain fixed-rate deposits and borrowings and certain variable-rate loans. In accordance with Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS No. 133), all derivatives are 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.

In accordance with SFAS No. 133, the Company documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction at the time the derivative contract is executed. This includes designating each derivative contract as either (i) a fair value hedge which is a hedge of a recognized asset or liability, (ii) a cash flow hedge which hedges a forecasted transaction or the variability of the cash flows to be received or paid related to a recognized asset or liability or (iii) an undesignated hedge , a derivative instrument not designated as a hedging instrument whose change in fair value is recognized directly in the consolidated statement of income. All derivatives designated as fair value or cash flow hedges are linked to specific hedged items or to groups of specific assets and liabilities on the balance sheet. The Company did not have any undesignated hedges during 2005 or 2004.

Both at inception and at least quarterly thereafter, the Company assesses whether the derivatives used in hedging transactions are highly effective (as defined in SFAS 133) in offsetting changes in either the fair value or cash flows of the hedged item. Retroactive effectiveness is assessed, as well as the continued expectation that the hedge will remain effective prospectively.

For cash flow hedges, in which derivatives hedge the variability of cash flows (interest payments) on loans that are indexed to U.S. dollar LIBOR or the Bank s prime interest rate, the effectiveness is assessed prospectively at the inception of the hedge, and prospectively and retrospectively at least quarterly thereafter. Ineffectiveness of the cash flow hedges is measured on a quarterly basis using the hypothetical derivative method. For cash flow hedges, the effective portion of the changes in the derivatives fair value is not included in current earnings but is reported as other comprehensive income. When the cash flows associated with the hedged item are realized, the gain or loss included in other comprehensive income is recognized on the same line in the consolidated statement of income as the hedged item, i.e. included in interest income on loans. Any ineffective portion of the changes of fair value of cash flow hedges would be recognized immediately in other noninterest income in the consolidated statement of income.

For fair value hedges, in which derivatives hedge the fair value of certain certificates of deposits, subordinated debt and other long-term debt, the interest rate swaps are structured so that all key terms of the swaps match those of the underlying debt transactions, therefore ensuring hedge effectiveness at inception. On a quarterly basis, fair value hedges are analyzed to ensure that the key terms of the hedged items and hedging instruments remain unchanged, and the hedging counterparties are evaluated to ensure that there are no adverse developments regarding counterparty default, therefore ensuring continuous effectiveness. For fair-value hedges, the effective portion of the changes in the fair value of derivatives is reflected in current earnings, on the same line in the consolidated statement of income as the related hedged item. The ineffective portion, if any, of the changes in the fair value of these hedges (the

differences between changes in the fair value of the interest rate swaps and the hedged items) would be recognized immediately in other noninterest income in the consolidated statement of income.

Fair values are determined from verifiable third-party sources that have considerable experience with the interest-rate swap market. For both fair value and cash flow hedges, the periodic accrual of interest receivable or payable on interest rate swaps is recorded as an adjustment to net interest income for the hedged items.

The Company discontinues hedge accounting prospectively when (i) a derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item, (ii) a derivative expires or is sold, terminated, or exercised, (iii) a derivative is un-designated as a hedge, because it is unlikely that a forecasted transaction will occur; or (iv) the Company determines that designation of a derivative as a hedge is no longer appropriate. If a derivative instrument in a fair value hedge is terminated or the hedge designation removed, the previous adjustments to the carrying amount of the hedged asset or liability are subsequently accounted for in the same manner as other components of the carrying amount of that asset or liability. For interest-earning assets and interest-bearing liabilities, such adjustments are amortized into earnings over the remaining life of the respective asset or liability. If a derivative instrument in a cash flow hedge is terminated or the hedge designation is removed, related amounts reported in other comprehensive income are reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

Accounting for stock options

The Company grants stock options and restricted stock to employees in order to leverage the success of the Company by providing a means of attracting, motivating, retaining, and rewarding key employees. The stock option plans are authorized and administered by the Compensation, Nominating, & Governance Committee of the Board of Directors, (the Committee). Awards may be granted to eligible employees, and shall not exceed 500,000 shares to an employee during any one year period as determined by the Committee. Non-qualified and incentive options are issued at the fair market value of the common stock on the grant date. Each option vests evenly over a four year period, beginning on the first anniversary of the grant date, and has an option term of 10 years, after which the option expires. Unvested options are forfeited upon termination of employment, except in the case of the retirement of a retirement-age employee for options granted prior to January 31, 2006, or upon the death of an employee, at which point the remaining unvested options are automatically vested.

Through 2005, the Company has applied APB Opinion No. 25 in accounting for the stock option 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 in Note 1 of the Notes to Consolidated Financial Statements.

The Black-Scholes option-pricing model requires assumptions about the expected lives 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 6 years, as measured monthly; the dividend yield and a 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.

Since 2003, stock-based compensation performance awards granted to colleagues of the Company have included restricted stock grants and fewer stock options. This reduced the total number of shares awarded but better aligned the interests of shareholders and colleagues. Twenty-five percent of the restricted stock awards vest two years from the date of grant, then twenty-five percent vests on each of the next three consecutive grant anniversary dates. The portion of the market value of the restricted stock related to current service is recognized as compensation expense. The portion of the market value of the restricted stock relating to future service is included in deferred equity compensation and will be amortized over the remaining vesting period on a straight-line basis. The Company recorded $4,111,135 in expense for restricted stock awards in 2005 compared to $3,445,007 in 2004.

In December 2004, the FASB issued SFAS No. 123 (revised) (SFAS No. 123R), Share-Based Payment . SFAS No. 123R eliminates the intrinsic value method under APB 25 as an alternative method of accounting for stock-based awards. SFAS No. 123R also revises the fair value-based method of accounting for share-based payment liabilities, forfeitures and modifications of stock-based awards and clarifies SFAS No. 123 s guidance in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods. SFAS No. 123R amends SFAS No. 95, Statement of Cash Flows to require that excess tax benefits be reported as a financing cash inflow rather than as reduction of taxes paid, which is included in operating cash flows.

The Company is required to adopt SFAS No. 123R for the period beginning January 1, 2006 using either a modified version of prospective application or a modified version of retrospective application. The Company adopted SFAS No. 123R using the modified prospective method with an effective date of January 1, 2006. This will have the effect of increasing compensation expense in 2006 and reducing net income per share by approximately $0.07 a share.

2005 HIGHLIGHTS

- Consolidated net income for 2005 was $234.7 million, or $4.60 per diluted common share, compared with $206.3 million, or $4.04 per diluted common share, in 2004. Net income increased 14 percent, primarily attributable to strong loan growth, an expanding net interest margin, and growth in our wealth management business. Nonaccrual loans for 2005 fell to $14.4 million, a 58.4 percent decline from December 31, 2004. Net loan recoveries were $9.3 million in 2005; compared to net loan charge-offs of $5.7 million in 2004.

- Fully taxable-equivalent net interest income of $625 million was up 12 percent from 2004, due primarily to increasing loan volume and higher interest rates.

- No provision for credit losses was recorded for the years ended December 31, 2005 and December 31, 2004.

- Noninterest income reached $208 million in 2005, up 13 percent from the previous year. It accounts for 25 percent of the Company s revenue. The increase was due largely to the continued growth of the Company s wealth management business and higher international services fees.

- The Company s effective tax rate was 37.7 percent for the year, compared to a 37.4 percent rate in 2004.

- Total assets at December 31, 2005 reached $14.6 billion, up 2 percent from the end of 2004 and 1 percent from the third quarter of 2005.

- Total average assets increased to $14.2 billion in 2005 from $13.4 billion in 2004, an increase of $0.8 billion, or 6 percent.

- The return on average assets was 1.66 percent for 2005 compared with 1.54 percent for 2004. The return on average shareholders equity increased to 16.89 percent in 2005 from 16.34 percent for the prior year.
- Average securities for 2005 were up 10 percent from 2004. The average duration of the total available-for-sale securities portfolio at both December 31, 2005 and December 31, 2004 was 3.0 years.
- Average loan balances grew 9 percent to $8.9 billion.
- Average deposits totaled $11.8 billion, up 4 percent from 2004.

OUTLOOK

Management currently expects earnings per share to grow at a rate of between 9 percent and 12 percent in 2006. This guidance reflects the estimated 7-cent-per-share impact of expensing stock options.

Average loans are expected to grow at a higher rate than they did in 2005, while average deposits are expected to grow at a rate similar to last year. The average net interest margin for 2006 may show some modest expansion. Noninterest income and noninterest expense are expected to grow at lower rates than in 2005. Management expects to make a provision for loan losses in 2006, depending on numerous factors related to asset quality, charge-offs, and the economic environment. It also expects the Company s effective tax rate to be slightly higher in 2006 than in 2005.

RESULTS OF OPERATIONS

Operations Summary

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

Dollars in thousands (except per share amounts)	Year Ended 2005	Increase (Decrease) Amount	%	Year Ended 2004	Increase (Decrease) Amount	%	Year Ended December 31, 2003	2002	2001
Interest income (1)	$ 731,048	$ 113,085	18	$ 617,963	$ 27,885	5	$ 590,078	$ 624,504	$ 638,914
Interest expense	106,125	47,688	82	58,437	(2,673)	(4)	61,110	94,444	191,094
Net interest income	624,923	65,397	12	559,526	30,558	6	528,968	530,060	447,820
Provision for credit losses					(29,000)	(100)	29,000	67,000	35,000
Noninterest income	208,189	23,924	13	184,265	7,040	4	177,225	146,293	132,384
Noninterest expense:									
Staff expense	263,398	23,815	10	239,583	22,089	10	217,494	195,652	170,364
Other expense (2)	174,987	19,160	12	155,827	9,143	6	146,684	135,994	143,031
Total	438,385	42,975	11	395,410	31,232	9	364,178	331,646	313,395
Minority interest expense	5,675	683	14	4,992	953	24	4,039	945	0
Income before income taxes	389,052	45,663	13	343,389	34,413	11	308,976	276,762	231,809
Income taxes	141,821	18,392	15	123,429	15,483	14	107,946	78,858	71,973
Less: adjustments (1)	12,496	(1,142)	(8)	13,638	(715)	(5)	14,353	14,804	13,666
Net income	$ 234,735	$ 28,413	14	$ 206,322	$ 19,645	11	$ 186,677	$ 183,100	$ 146,170
Adjusted net income (2)	$ 234,735	$ 28,413	14	$ 206,322	$ 19,645	11	$ 186,677	$ 183,100	$ 159,038
Net income per share, diluted	$ 4.60	$ 0.56	14	$ 4.04	$ 0.32	9	$ 3.72	$ 3.56	$ 2.96
Adjusted net income per share, diluted	$ 4.60	$ 0.56	14	$ 4.04	$ 0.32	9	$ 3.72	$ 3.56	$ 3.22

(1) Includes amounts to convert nontaxable income to a 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 for the year ended December 31, 2001 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 fully 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

	2005			2004		
Dollars in thousands	**Average Balance**	**Interest income/ expense (2)**	**Average interest rate**	**Average Balance**	**Interest income/ expense (2)**	**Average interest rate**
Assets						
Interest-earning assets						
Loans						
Commercial	$ 3,324,796	$ 203,800	6.13 %	$ 3,042,167	$ 158,641	5.21 %
Commercial real estate mortgages	1,819,488	131,179	7.21	1,776,193	111,992	6.31
Residential mortgages	2,470,094	128,547	5.20	2,132,094	114,616	5.38
Real estate construction	748,807	56,852	7.59	756,022	41,734	5.52
Equity lines of credit	298,751	18,029	6.03	216,206	9,649	4.46
Installment	213,422	14,708	6.89	183,975	11,269	6.13
Total loans (1)	8,875,358	553,115	6.23	8,106,657	447,901	5.53
Due from banks interest bearing	46,705	661	1.42	63,042	740	1.17
Federal funds sold and securities purchased under resale agreements	50,287	1,617	3.22	463,979	6,884	1.48
Securities available-for-sale	4,038,303	174,259	4.32	3,656,548	162,107	4.43
Trading account securities	37,645	1,396	3.71	32,476	331	1.02
Total interest-earning assets	13,048,298	731,048	5.60	12,322,702	617,963	5.01
Allowance for loan losses	(150,303)			(153,266)		
Cash and due from banks	443,828			442,570		
Other non-earning assets	819,449			783,989		
Total assets	$ 14,161,272			$ 13,395,995		
Liabilities and Shareholders Equity						
Interest-bearing deposits						
Interest checking accounts	$ 828,530	1,067	0.13	$ 792,424	697	0.09
Money market accounts	3,557,633	43,880	1.23	3,711,983	27,670	0.75
Savings deposits	196,590	540	0.27	249,081	533	0.21
Time deposits under $100,000	183,888	4,483	2.44	190,821	2,902	1.52
Time deposits $100,000 and over	1,013,486	26,075	2.57	849,489	12,456	1.47
Total interest bearing deposits	5,780,127	76,045	1.32	5,793,798	44,258	0.76
Federal funds purchased and securities sold under repurchase agreements	278,576	8,583	3.08	119,251	1,422	1.19
Other borrowings	533,755	21,497	4.03	571,807	12,757	2.23
Total interest bearing liabilities	6,592,458	106,125	1.61	6,484,856	58,437	0.90
Noninterest bearing deposits	5,998,712			5,481,219		
Other liabilities	180,371			167,358		
Shareholders equity	1,389,731			1,262,562		
Total liabilities and shareholders equity	$ 14,161,272			$ 13,395,995		
Net interest spread			3.99 %			4.11 %
Fully taxable-equivalent net interest income		$ 624,923			$ 559,526	
Net interest margin			4.79 %			4.54 %

(1) Includes average nonaccrual loans of $22,495, $39,266, $66,675, $58,707, and $45,167 for 2005, 2004, 2003, 2002, and 2001 respectively.

(2) Loan income includes loan fees of $22,562, $21,122, $22,573, $24,762, and $22,753 for 2005, 2004, 2003, 2002, and 2001 respectively.

Net Interest Income Summary

2003 Average Balance	2003 Interest income/ expense (2)	2003 Average interest rate	2002 Average Balance	2002 Interest income/ expense (2)	2002 Average interest rate	2001 Average Balance	2001 Interest income/ expense (2)	2001 Average interest rate
$ 3,256,646	$170,433	5.23 %	$ 3,518,399	$211,750	6.02 %	$3,072,172	$241,848	7.87 %
1,681,056	113,830	6.77	1,647,398	122,528	7.44	1,442,441	121,166	8.40
1,827,504	109,990	6.02	1,753,536	118,017	6.73	1,474,856	105,251	7.14
647,851	33,593	5.19	634,074	35,221	5.55	513,184	38,676	7.54
173,937	7,528	4.33	134,762	6,616	4.91	82,999	5,887	7.09
142,156	9,323	6.56	134,484	9,973	7.42	127,663	11,328	8.87
7,729,150	444,697	5.75	7,822,653	504,105	6.44	6,713,315	524,156	7.81
66,755	604	0.90	24,588	290	1.18	18,707	436	2.33
386,388	4,185	1.08	171,809	2,759	1.61	107,247	3,298	3.08
2,944,443	140,381	4.77	1,943,910	116,898	6.01	1,637,321	109,070	6.66
32,298	211	0.65	34,038	452	1.33	43,652	1,954	4.48
11,159,034	590,078	5.29	9,996,998	624,504	6.25	8,520,242	638,914	7.50
(161,869			(150,844			(129,045)		
436,870			430,085			399,978		
722,110			623,431			545,273		
$12,156,145			$10,899,670			$9,336,448		
$ 652,238	1,218	0.19	$ 616,158	1,546	0.25	$ 554,641	2,114	0.38
3,205,041	26,078	0.81	2,517,341	34,161	1.36	1,552,404	44,162	2.84
285,584	614	0.21	225,217	2,016	0.90	247,280	7,064	2.86
209,520	3,521	1.68	226,042	5,368	2.37	245,350	11,397	4.65
1,003,012	14,377	1.43	1,239,576	27,621	2.23	1,469,874	68,513	4.66
5,355,395	45,808	0.86	4,824,334	70,712	1.47	4,069,549	133,250	3.27
147,883	1,538	1.04	199,110	3,033	1.52	326,889	13,218	4.04
645,578	13,764	2.13	879,145	20,699	2.35	990,779	44,626	4.50
6,148,856	61,110	0.99	5,902,589	94,444	1.60	5,387,217	191,094	3.55
4,689,872			3,815,212			2,998,435		
169,940			132,476			125,452		
1,147,477			1,049,393			825,344		
$12,156,145			$10,899,670			$9,336,448		
		4.29 %			4.65 %			3.95 %
	$528,968			$530,060			$447,820	
		4.74 %			5.30 %			5.26 %

Net interest income is impacted by the volume (changes in volume multiplied by prior rate), rate (changes in rate multiplied by prior volume) and mix of interest-earning assets and interest-bearing liabilities. The following table shows changes in net interest income between 2005 and 2004 as well as between 2004 and 2003 broken down between volume and rate.

Changes In Net Interest Income

Dollars in thousands fully taxable equivalent basis	**2005 vs 2004 Increase (decrease) due to Volume**	**Rate**	**Net increase (decrease)**	**2004 vs 2003 Increase (decrease) due to Volume**	**Rate**	**Net increase (decrease)**
Interest earned on:						
Loans	$ 45,061	$ 60,153	$ 105,214	$ 21,603	$ (18,399)	$ 3,204
Due from banks - interest bearing	(216)	137	(79)	(35)	171	136
Securities available-for-sale	16,316	(4,164)	12,152	32,245	(10,519)	21,726
Federal funds sold and securities purchased under resale agreements	(9,236)	3,969	(5,267)	949	1,750	2,699
Trading account securities	61	1,004	1,065	1	119	120
Total interest-earning assets	51,986	61,099	113,085	54,763	(26,878)	27,885
Interest paid on:						
Interest checking deposits	34	336	370	261	(133)	128
Money market deposits	(1,185)	17,395	16,210	3,704	(2,112)	1,592
Savings deposits	(124)	131	7	(81)		(81)
Time deposits	2,626	12,574	15,200	(2,392)	(797)	(3,189)
Other borrowings	2,846	13,055	15,901	(2,043)	920	(1,123)
Total interest-bearing liabilities	4,197	43,491	47,688	(551)	(2,122)	(2,673)
	$ 47,789	$ 17,608	$ 65,397	$ 55,314	$ (24,756)	$ 30,558

Net interest income was positively impacted by increases in interest rates by the Federal Reserve Board throughout 2005. These rate increases had three primary effects: (1) Interest income increased primarily as a result of the repricing of commercial and real estate loans with rising prime and LIBOR rates, (2) rates on deposits increased, but not as fast as loan rates, and (3) service charges on deposits decreased due to higher earnings credits on deposit balances. Higher earnings credits result in lower compensating balances and lower overall deposit growth. The 25-basis-point increase in our net margin from 2004 to 2005 is attributable to rising interest rates and the availability of noninterest-bearing deposits to fund loans. Our service charges on deposit accounts, included in noninterest income, decreased by $7.3 million or 17.6 percent between December 31, 2004 and December 31, 2005, due to higher earnings credits on customer deposit balances. Changes in volume and mix are described below. Changes in volume can be attributed to many factors including changes in interest rates.

Taxable-equivalent net interest income totaled $624.9 million in 2005, compared with $559.5 million for 2004. The increase in net interest income reflected higher yielding average loans due to both higher interest rates and increasing loan balances. Included in 2005 was $9.9 million from the receipt of net settlements of interest rate risk management instruments compared to $29.1 million in 2004. Interest income recovered on charged-off loans included above was $2.5 million in 2005, compared with $2.1 million for 2004. The fully taxable-equivalent net interest margin in 2005 was 4.79 percent, compared with 4.54 percent for 2004.

Average loans for 2005 were $8,875.4 million, $768.7 million or 9.5 percent higher than 2004 due to a good economy and the acquisition of new customers. Compared with 2004 averages, residential mortgage loans rose 15.9 percent to $2,470.1 million, commercial loans increased 9.3 percent to $3,324.8 million and

commercial real estate mortgage loans increased 2.4 percent to $1,819.5 million. Real estate construction loans declined slightly to $748.8 million.

Average securities available-for-sale in 2005 were $4,038.3 million, an increase of $381.8 million, or 10.4 percent, over 2004.

Average core deposits, which continued to provide substantial benefits to the bank s cost of funds, rose to $10,765.3 million, an increase of 3.3 percent over 2004. Average core deposits, which do not include certificates of deposit of $100,000 or more, represented 91.4 percent of the total average deposit base for the year. Included in core deposits are specialty deposits. Average specialty deposits, primarily from title and escrow companies, were $1,614.9 million in 2005, compared to $1,528.9 million in 2004. Average interest-bearing core deposits decreased to $4,766.6 million in 2005 from $4,944.3 million in 2004, a decrease of $177.7 million, or 3.6 percent. Average noninterest-bearing deposits increased to $5,998.7 million in 2005 from $5,481.2 million in 2004, an increase of $517.5 million, or 9.4 percent.

New clients and higher existing client deposit balances maintained to pay for services contributed to the growth of deposits. Average time deposits in denominations of $100,000 or more increased $164.0 million, or 19.3 percent, between 2004 and 2005.

In 2004, taxable-equivalent net interest income totaled $559.5 million in 2004, compared with $529.0 million in 2003. The increase in net interest income was primarily due to higher yields on higher average securities. Net interest income for 2004 included $29.1 million from the receipt of net settlements of interest rate risk management instruments compared to $31.5 million in 2003. Interest income recovered on charged-off loans included above was $2.1 million in 2004, compared with $2.7 million for 2003. The fully taxable-equivalent net interest margin in 2004 was 4.54 percent, compared with 4.74 percent for 2003.

Average loans for 2004 were $8,106.7 million, $377.5 million or 4.9 percent higher than 2003 due to improved loan demand. Compared with 2003 averages, residential mortgage loans rose 16.7 percent to $2,132.1 million, commercial real estate mortgage loans increased 5.7 percent to $1,776.2 million; and real estate construction loans rose 16.7 percent to $756.0 million. Commercial loans decreased by 6.6 percent to $3,042.2 million.

Average securities available-for-sale in 2004 were $3,656.5 million an increase of $712.1 million, or 24.2 percent, over 2003 as deposit growth continued to exceeded loan demand.

Total average core deposits rose to $10,425.5 million in 2004, an increase of 15.3 percent over 2003. Average core deposits represented 92.5 percent of the total average deposit base for 2004. Average interest-bearing core deposits increased to $4,944.3 million in 2004 from $4,352.4 million in 2003, an increase of $591.9 million, or 13.6 percent. Average noninterest-bearing deposits increased to $5,481.2 million in 2004 from $4,689.9 million in 2003, an increase of $791.3 million, or16.9 percent. New clients and higher existing client deposit balances maintained to pay for services contributed to the growth of deposits. Average time deposits in denominations of $100,000 or more decreased $153.5 million, or 15.3 percent, between 2003 and 2004.

Provision for Credit Losses

The Company accounts for the credit risk associated with lending activities through its allowance for loan losses and provision for credit losses. The provision is the expense recognized in the income statement to adjust the allowance to the level deemed appropriate by management, as determined through its application of the Company s allowance methodology procedures (see Critical Accounting Policies on page 26).

The provision for credit losses primarily reflects management s ongoing assessment of the credit quality and growth of the loan and commitment portfolios as well as the levels of net loan

charge-offs/recoveries and nonaccrual loans, and changes in the economic environment during the period. In 2005, 2004, and 2003, net recoveries/ (charge-offs) totaled $9.3 million, ($5.7) million and ($27.5) million, respectively. In these years, nonaccrual loans at year-end totaled $14.4 million, $34.6 million and $42.3 million, respectively.

The Company recorded no provision for credit losses in 2005 or 2004, and $29.0 million in 2003. The Company has not recorded a provision for credit losses since the second quarter of 2003. This is attributable to the continued strong credit quality of the Company s loan portfolio, rate of loan growth, changing economic conditions and management s ongoing assessment of the credit quality of the loan portfolio. The key indicators of the improving asset quality of the loan portfolio during the period were an improvement in credit risk ratings, a decline in nonaccrual loans and loan recoveries that exceeded charge-offs.

Total nonaccrual loans decreased to $14.4 million at December 31, 2005, down 58 percent from December 31, 2004 and 22 percent from September 30, 2005. There were net loan recoveries of $9.3 million for the year ended December 31, 2005 compared with net charge-offs of $5.7 million for the year ended December 31, 2004 and net charge-offs of $27.5 million for the year ended December 31, 2003. See Balance Sheet Analysis Asset Quality Allowance for Loan Losses and Reserve for Off-Balance Sheet Credit Commitments for further information on factors considered by the Company in assessing the credit quality of the loan portfolio and establishing the allowance for loan losses.

In response to the improving credit performance and economic conditions, the Company considered it appropriate not to record a provision for credit losses in the quarter ended December 31, 2005. As a result of not recording a provision for credit losses, the Company s net income was positively impacted.

Based on expected loan growth, the levels of nonperforming loans and net charge-offs, it is anticipated that the allowance for loan losses and reserve for off-balance sheet credit commitments will require additional provisions for credit losses in 2006. 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 loan losses. Additionally, subsequent evaluation of the loan and commitment portfolios by the Company and its regulators, in light of factors then prevailing, may warrant an adjustment to the amount of the projected provision.

Noninterest Income

The Company continues to emphasize fee income growth. Noninterest income in 2005 totaled $208.2 million, an increase of $23.9 million, or 13.0 percent, from 2004. Noninterest income increased $7.1 million, or 4.0 percent, between 2004 and 2003. Noninterest income represented 25.4 percent of total revenues in 2005, compared with 25.2 percent and 25.6 percent in 2004 and 2003, respectively.

A breakdown of noninterest income by category is reflected below.

Analysis of Changes in Noninterest Income

Dollars in millions	**2005**	**Increase (Decrease) Amount**	**%**	**2004**	**Increase (Decrease) Amount**	**%**	**2003**
Trust and investment fees	$ 78.6	$ 10.3	15.1	$ 68.3	$ 21.2	45.0	$ 47.1
Brokerage and mutual fund fees	41.9	4.2	11.1	37.7	1.1	3.0	36.6
Cash management and deposit transaction fees	34.1	(7.3)	(17.6)	41.4	(2.1)	(4.8)	43.5
International services fees	23.2	2.4	11.5	20.8	1.5	7.8	19.3
Bank-owned life insurance	3.2	0.4	14.3	2.8	(0.2)	(6.7)	3.0
Other service charges and fees	24.9	5.8	30.4	19.1	(5.4)	(22.0)	24.5
Total recurring noninterest income	205.9	15.8	8.3	190.1	16.1	9.3	174.0
Gain (loss) on sale of loans and assets	1.0	1.0			(0.1)	N/M	0.1
Gain (loss) on sale of securities	1.3	7.1	122.4	(5.8)	(8.9)	N/M	3.1
Total	$ 208.2	$ 23.9	13.0	$ 184.3	$ 7.1	4.0	$ 177.2

Trust and investment fee revenue and brokerage and mutual fund fees, which include trust fees, commissions and mark-ups on securities transactions with clients, and fees on mutual funds, increased by $14.5 million or 13.7 percent in 2005 compared with 2004. The increase was due to new business and higher market values. Trust and investment fee revenue and brokerage and mutual fund fees increased by $22.3 million, or 26.6 percent, from 2003 to 2004. At December 31, 2005, the Company had $39.6 billion in assets under management or administration, including $19.3 billion in assets under management, compared with $35.1 billion and $16.2 billion, respectively, at December 31, 2004. The increase in assets under management in 2005 is attributable to new business, strong investment performance and higher market values.

Cash management and deposit transaction fees decreased $7.3 million, or 17.6 percent, in 2005, compared with a 4.8 percent decrease in 2004. The decrease in both years was due to a higher earnings credit rate and higher balances maintained to offset transaction charges.

International services fee income for 2005 increased $2.4 million, or 11.5 percent, over 2004, compared with a 7.8 percent increase in 2004. The increase in 2005 is primarily due to the continued growth of the company s international business and higher demand for letters of credit. In 2004, international services fee income increased $1.5 million over 2003 due to higher foreign exchange income.

Other service charges and fees increased $5.8 million in 2005 over 2004, or 30.4 percent, primarily as a result of non-recurring insurance proceeds and higher fees on participating mortgage loans (PMLs). Other service charges and fees decreased $5.4 million in 2004 over 2003, or 22.0 percent, as a result of lower PML fees. Participation mortgage loan fees are earned upon completion and repayment for certain real estate construction projects. In these cases, the Bank lends a portion of the equity required and receives a share of the profits in return.

The gains on the sale of loans and assets were not significant in 2005, 2004 or 2003. Gains on the sale of securities available-for-sale totaled $1.3 million in 2005. Losses on the sale or writedown of securities available-for-sale totaled $5.8 million for 2004 primarily due to an $8.2 million writedown for other-than-temporary impairment on certain perpetual fixed-rate preferred securities. Gains on the sale of available-for-sale securities totaled $3.1 million in 2003.

Noninterest Expense

Noninterest expense was $444.1 million in 2005, an increase of $43.7 million, or 10.9 percent, over 2004. It increased $32.2 million, or 8.7 percent, in 2004 over 2003. Noninterest expense in 2005 and 2004 grew primarily because of increases in staff, incentive compensation, relocation of colleagues to City National Plaza and expenses related to regulatory compliance requirements.

Analysis of Changes in Noninterest Expense

Dollars in millions	**2005**	**Increase (Decrease) Amount**	**%**	**2004**	**Increase (Decrease) Amount**	**%**	**2003**
Salaries and employee benefits	263.4	23.8	9.9	239.6	22.1	10.2	217.5
All Other:							
Legal and professional fees	41.6	7.3	21.3	34.3	7.1	26.1	27.2
Net occupancy of premises	35.1	4.5	14.7	30.6	(0.8)	(2.5)	31.4
Information services	21.1	2.3	12.2	18.8	0.8	4.4	18.0
Depreciation	14.3	0.7	5.1	13.6	0.8	6.2	12.8
Marketing and advertising	16.2	0.7	4.5	15.5	2.3	17.4	13.2
Office services	10.7	0.4	3.9	10.3	0.3	3.0	10.0
Amortization of intangibles	6.6	(0.5)	(7.0)	7.1	(2.1)	(22.8)	9.2
Equipment	2.4	(0.1)	(4.0)	2.5	0.1	4.2	2.4
Minority interest expense	5.7	0.7	14.0	5.0	1.0	25.0	4.0
Other operating	27.0	3.9	16.9	23.1	0.6	2.7	22.5
Total all other	180.7	19.9	12.4	160.8	10.1	6.7	150.7
Total	444.1	43.7	10.9	400.4	32.2	8.7	368.2

Salaries and employee benefits expense increased 9.9 percent in 2005 primarily due to increases in staff and higher performance-based compensation costs compared with a 10.2 percent increase in 2004. On a full-time equivalent basis, staff levels have increased to 2,539 at December 31, 2005 from 2,397 at December 31, 2004 and 2,348 at December 31, 2003. As described in Note 1 of Notes to Consolidated Financial Statements and Critical Accounting Policies , the Company has applied APB Opinion No. 25 in accounting for its stock options plans and, therefore, no compensation cost for its stock options was recognized in the financial statements. However, in 2005, 2004, and 2003 the Company s stock-based compensation performance awards included restricted stock grants. The Company recorded $4,111,135 in expense for restricted stock awards in 2005 compared to $3,445,007 in 2004, and $905,170 in 2003.

The remaining expense categories increased $19.9 million or 12.4 percent, between 2004 and 2005. Increases were the result of the Company s growth as well as expenses related to regulatory compliance requirements. Occupancy costs increased $4.5 million primarily due to relocating employees to City National Plaza. The remaining expense categories increased $10.1 million, or 6.7 percent, between 2003 and 2004 primarily as a result of the Company s growth.

Income Taxes

The effective tax rate for 2005 was 37.7 percent, compared with 37.4 percent for 2004 and 36.6 percent for 2003. The higher effective tax rate for 2005 is due to an increase in pretax income and a disproportionately lower increase in permanent tax differences. The higher rate for 2004 compared to 2003 is primarily due to the effect of relatively stable permanent tax differences along with an increase in pretax income.

On December 31, 2003, the California Franchise Tax Board (FTB) announced that it had taken the position that certain REIT and regulated investment company (RIC) tax deductions would be disallowed consistent with notices issued by the State of California that stipulate that the REIT and RIC are listed transactions under California tax-shelter legislation. The Company had created its two REITs (one of which was formed as a RIC in 2000) to raise capital for the Bank. While management believes that the tax benefits related to the two REITs realized in prior years were appropriate, the Company deemed it prudent to participate in the statutory Voluntary Compliance Initiative, Option 2, which required payment of all California taxes and interest on the disputed 2000 through 2002 tax benefits while permitting the Company to claim a refund for these years and avoid certain potential penalties. The Company retains potential exposure for assertion of an accuracy-related penalty should the FTB prevail in its position, in addition to the risk of not being successful in its refund claims for taxes and interest. The Company and its advisors continue to believe that the Company s position has merit and the Company will aggressively pursue its claims and defend its use of these entities and transactions. The Company has a $43.2 million state tax receivable, after giving effect to reserves for loss contingencies on the refund claims, or $28.1 million after the Federal tax effect of the refund claims.

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 and tax-exempt income, including interest on bank-owned life insurance. See footnote 7 of the Notes to Consolidated Financial Statements on page A-20.

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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk results from the variability of future cash flows and earnings due to changes in the financial markets. These changes may also impact the fair values of loans, securities and borrowings. The values of financial instruments may change because of interest rate changes, foreign currency exchange rate changes or other market changes. The Company s asset/liability management process entails the evaluation, measurement and management of interest rate risk, market risk and liquidity risk. The principal objective of asset/liability management is to optimize net interest income subject to margin volatility and liquidity constraints over the long term. Margin volatility results when the rate reset (or repricing) characteristics of assets are materially different from those of the Company s liabilities. The Board of Directors approves asset/liability policies and sets limits within which the risks must be managed. The Asset/Liability Management Committee (ALCO), which is comprised of senior management and key risk management individuals, sets risk management guidelines within the broader limits approved by the Board, monitors the risks and periodically reports results to the Board.

Liquidity Risk

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 to manage cash flow and liquidity reserves so that they are 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.

In recent years, the Company s core deposit base has provided the majority of the Company s funding requirements. This relatively stable and low-cost source of funds has, along with shareholders equity, provided 86 percent and 87 percent of funding for average total assets in 2005 and 2004, respectively.

A significant portion of remaining funding of average total assets is provided by short-term federal fund purchases and, to a lesser extent, sales of securities under repurchase agreements. These funding sources, on average, totaled $278.5 million and $119.3 million in 2005 and 2004, respectively. The Company reduced its funding from other borrowings to $533.8 million on average in 2005 from $571.8 million in 2004.

Liquidity is also provided by assets such as federal funds sold and trading account securities, which may be immediately converted to cash at minimal cost. The aggregate of these assets averaged $87.9 million during 2005 compared with $496.5 million in 2004. Liquidity is also provided by the portfolio of securities available-for-sale, which averaged $4,038.3 million and $3,657.0 million in 2005 and 2004, respectively. The unpledged portion of securities available-for-sale at December 31, 2005 totaled $3.2 billion and could be sold or made available as collateral for borrowing. Maturing loans provide additional liquidity, and $2,920.1 million, or 31.5 percent, of the Company s loans are scheduled to mature in 2006.

Interest-Rate Risk

Interest rate risk is inherent in financial services businesses. Interest rate risk results from assets and liabilities maturing or repricing at different times; assets and liabilities repricing at the same time but in different amounts or from short-term and long-term interest rates changing by different amounts (changes in the yield curve).

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 12 and 24 month forecast horizon. Present value of equity calculations are used to estimate the 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 is naturally asset-sensitive due to its large portfolio of rate-sensitive commercial loans that are funded in part by rate-stable core deposits. As a result, the net interest margin increases when interest rates increase and decreases when interest rates decrease. As part of its overall interest rate risk management process, the Company performs stress tests on net interest income projections based on a variety of factors, including changes in the relationship between the prime rate and short-term interest rates, and the shape of the yield curve. The Company uses a simulation model to estimate the severity of this risk and to develop mitigation strategies, including interest rate hedges. The magnitude of the change is determined from historical volatility analysis. The assumptions used in the model are updated periodically and reviewed and approved by the Asset Liability Management Committee (ALCO). In addition, 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 2005 the Company maintained an asset-sensitive interest rate position. The average prime rate increased 185 basis points in 2005 and the Company s net interest margin increased by 25 basis points, partially due to the Company s asset-sensitive position. Based on the balance sheet at December 31, 2005, the simulation model indicates that a gradual 100-basis-point decline in interest rates over a 12-month horizon would cause net interest income to decline approximately 0.8 percent. This is comparable to the 2.4 percent decline projected at December 31, 2004. A gradual 100-basis-point increase in interest rates over the next 12 months would result in a projected increase in net interest income of approximately 0.7

percent compared to 1.6 percent projected a year earlier. The Company s interest-rate-risk exposure remains within Board of Director s ALCO guidelines.

Market Value of Portfolio Equity: The market value of portfolio equity (MVPE) model is used to evaluate the vulnerability of the market value of shareholders equity to changes in interest rates. The MVPE 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 MVPE. The assumptions about the timing of cash flows, level of interest rates and shape of the yield curve are the same as those used in the net interest income simulation. They are updated periodically and are reviewed by ALCO at least annually.

The MVPE model indicates that MVPE is somewhat vulnerable to a sudden and substantial increase in interest rates. As of December 31, 2005, a 200-basis-point increase in interest rates results in a 3.7 percent decline in MVPE. This compares to a 6.4 percent decline a year earlier. The lower sensitivity is due to strategic changes in the investment portfolio to limit extension risk. As of December 31, 2005, a 200-basis-point decrease in rates would improve MVPE 1.4 percent. As of December 31, 2004, the MVPE would improve 3.4 percent as rates decreased.

Gap Analysis: The gap analysis is based on the contractual cash flows of all asset and liability balances on the Company s books. Contractual lives of assets and liabilities may differ substantially from their expected lives. For example, checking accounts are subject to immediate withdrawal. However, experience suggests that these accounts will have longer average lives. Also, certain loans, such as first mortgages, are subject to prepayment. The gap analysis 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 interest rate derivatives. Gap analysis is used to support both interest rate risk and liquidity risk management.

Interest rate swaps are used to reduce cash flow variability and to moderate changes in the fair value of long-term financial instruments. Net interest rate swap accruals (the difference between the fixed and floating rates paid or received) are included in net interest income in the reporting periods in which they are earned.

Interest-rate swap transactions involve dealing with counterparties and the risk that they may not meet their contractual obligations. 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 subject to credit and market risk are much smaller. At December 31, 2005 the Company s interest-rate swaps were entered into as a hedge of the variability in interest cash flows generated from LIBOR and prime-based loans due to fluctuations in the LIBOR and prime indices or to convert fixed-rate deposits and borrowings into floating-rate liabilities. As discussed in Critical Accounting Policies Accounting for derivatives and hedging activities, all derivatives are 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, 2005, the Company had $1,531 million notional amount of interest rate swaps, of which $506 million were designated as fair value hedges and $1,025 million were designated as 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 $5.7 million. The negative mark-to-market on the cash flow hedges of variable-rate loans resulted in the recognition of other assets and other liabilities and a comprehensive loss of $11.2 million, before taxes of $4.7 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 $0.2 million that were reclassified into net interest expense during 2005. Comprehensive loss expected to be reclassified into net interest income within the next 12 months is $9.1 million.

	December 31, 2005			December 31, 2004			December 31, 2003		
Dollars in millions	**Notional Amount**	**Fair Value**	**Duration**	**Notional Amount**	**Fair Value**	**Duration**	**Notional Amount**	**Fair Value**	**Duration**
Fair Value Receive Fixed Interest Rate Swap Hedges									
Certificates of deposit	$ 15.0	$	0.6	$ 50.0	$ 0.5	0.5	$ 110.0	$ 2.7	0.8
Long-term and subordinated debt	490.9	5.7	4.5	490.9	25.9	5.3	490.9	32.2	6.1
Total fair value hedge swaps	505.9	5.7	4.4	540.9	26.4	4.9	600.9	34.9	5.1
Cash Flow Hedge Receive Fixed Interest Rate Swaps									
US Dollar LIBOR based loans	600.0	(7.9)	0.8	725.0	(2.0)	1.3	500.0	7.2	1.1
Prime based loans	425.0	(3.3)	1.7						
Total cash flow hedge swaps	1,025.0	(11.2)	1.2	725.0	(2.0)	1.3	500.0	7.2	1.1
Fair Value and Cash Flow Hedge Interest Rate Swaps	$ 1,530.9	$ (5.5)(1)	2.2	$ 1,265.9	$ 24.4	2.8	$ 1,100.9	$ 42.1	3.3

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(1) Net fair value is the estimated net gain (loss) to settle derivative contracts in 2005. The net fair value for 2005 of $(5.5) million is the sum of the mark-to-market asset on swaps of $3.2 million and the mark-to-market liability on swaps of $8.7 million.

The Company has not entered into transactions involving any other interest rate derivative 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 advantage over interest rate swaps.