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## PRESENTATION

**Amy Cairncross** - *Royal Bank of Canada - VP and Head of IR*

Good morning, everyone, and thank you for joining our Investor and Analyst Day featuring City National. Before beginning our presentation, please note slide 1 contains our caution regarding forward-looking statements. All remarks, including those made during the question period, may contain forward-looking statements which have inherent risks and uncertainties. And, as a result of these factors, actual results could differ materially from these statements.

Let's turn to our agenda on slide 2. In just a moment, Dave McKay, our CEO, will make some opening remarks. Following Dave, Russell Goldsmith, Chairman and CEO of City National Bank and Chairman of RBC US Wealth Management, will give you an overview of City National and its strategy. After Russell, we'll hear from Chris Carey, EVP and CFO of City National Bank, who will highlight City National's strong track record of performance. Then Janice Fukakusa, our CAO and CFO, will summarize our plan to deliver on synergies and drive growth.

Following the presentation, we will have a short break before we open it up for Q&A. At the end of today's event, we would ask that you please take a moment to fill out the survey which is included in your presentation package. For those joining us by webcast, we will be sending out the survey by email. Your feedback is very valuable to us, and we will take it into consideration for future events. We certainly hope you enjoy today's session.

I will now turn it over to Dave McKay.

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**Dave McKay** - *Royal Bank of Canada - CEO*

Well, good morning, everybody, and thanks so much for joining us today. And thank you, Amy, for kicking things off. I'm going to get started with an overview of RBC, and then how City National fits with our overall strategy and our US growth strategy.

So turning to slide 5, really highlights RBC core capabilities that have been central to our growth in the past, and which allow us to continue delivering value to our clients and shareholders in the future. So as you look at this slide, these key strengths include a diversified business model of the leading client franchises, backed by our strong brand; our size and scale, which enables us to invest in growth, achieve cost efficiencies, and deliver an exceptional client experience; and our disciplined approach to allocating capital and driving sustainable growth, with a focused strategy on our key markets.

As you can see on slide 6, our five client-focused segments are leaders in their respective marketplace. In most cases, number one in Canada, with a solid competitive position in the US and a growing presence in select global financial markets. We work with our clients as one RBC, collaborating across leading franchises, which enables our market-leading cross-sell ratios and contributes to our premium ROE.

Moving to slide 7, our size and scale allows us to deliver an exceptional client experience. Shifting demographics and growing digital expectations are changing the landscape of banking, and new technologies are reshaping how clients move, borrow, store, and invest money. We also recognize that speed-to-market is becoming more important, and we are on a journey to being a more agile company.

We see this evolution as an opportunity. And with more than 16 million clients worldwide, we believe we have the resources, talent, and market knowledge to build, test, and deliver solutions and attract premium partners.

Turning to slide 8. We have a strong track record of earnings growth and capital strength, underpinned by our prudent risk and cost management. Last month, we delivered a solid second-quarter of earnings of over $2.5 billion, bringing our earnings for the first half of 2016 to a record $5 billion. We achieved these results even within the context of a challenging operating environment in Canada.

Also, we delivered an industry-leading efficiency ratio, demonstrating the continuing benefits of our cost management capability, which have evolved over the past decade to form part of our business-as-usual activities. We have consistently delivered a strong return on equity. And even with the acquisition of City National, we've maintained our medium-term objective for ROE at 18-plus-percent.

We see a number of opportunities ahead, particularly through organic growth of our businesses that gives us the confidence we will build ROE back to our medium-term targets over time. We've maintained a strong capital position through solid earnings generation and effective balance sheet management. As you can see, even after closing the City National transaction in Q1, we ended this quarter with a CET1 ratio of 10.3%. This capital strength gives us the flexibility to invest for organic growth and to pursue normal capital management activities.

Turning to slide 9, our disciplined approach to delivering sustainable growth is guided by our medium-term objectives. At the core is a demonstrated ability to deploy capital efficiently. Our priority continues to be, first and foremost, investing in organic initiatives to grow our client businesses.

Returning capital to shareholders also remains a key priority, and we have a history of consistently increasing dividends. In addition, we recently announced the renewal of our share buyback program, reflecting confidence in our ability to continue to generate solid earnings growth and our commitment to maximizing shareholder value.

Let's turn to slide 10. Our growth strategy is clear and confident. First, we will continue to be the leader in financial services in Canada. We are the clear market leader with the country's number one retail, wealth and capital markets franchises. We are investing heavily to continue to grow these businesses which remain core to RBC. Even in a mature market, we see opportunities to extend our lead and outperform peers.

Beyond Canada, we've made important decisions on where and what segments -- what client segments we want to compete. In the US, we aim to be the preferred partner to corporate, institutional, and high net worth clients and their businesses. I will expand on this in a moment on the next slide.

Beyond North America, our goal is to build competitive corporate institutional and high net worth commercial client franchises in select global financial centers. Our presence and capabilities in the UK and Europe differentiate us from other North American banks, and we will continue to prudently build out Wealth Management and Capital Markets capabilities in the region.

Slide 11 highlights our presence in the US, our second home market. We have built sustainable client franchises in the US and see lots of opportunity ahead. We're bigger in the US than you may think. In fact, today we generate about 20% of our revenue in the US, driven by our very strong capital markets business, which has taken more market share in the US than any other investment bank since 2010.

We also serve the cross-border needs of over 200,000 Canadians through online channels, including RBC Bank USA. And finally, we are the seventh largest broker-dealer with growing asset management capabilities. And now with City National, we are a leading private and commercial bank in the United States.

So now let's turn our focus to the focus for today, which is City National. City National is key to our vision of becoming the leading private and commercial bank and wealth manager in key US markets.

To give you some history, for several years, we've been exploring how we can enhance our US franchise and add product capabilities to better serve our clients. Our growing presence in the US is important. It provides geographic diversification and growth opportunities in the most broad and deep financial services market in the world, and gives us leverage to US economic growth.

In 2013, I first approached Russell Goldsmith -- now Chairman and CEO of City National -- because I thought the franchise, its employees and its culture, would be the perfect fit for RBC. Russell and I started a dialogue, and he initially told me that City National was not for sale. I told him I hoped I was the first call he would make if he ever changed his mind.

Then I spent the next two years trying to convince him that RBC was, in fact, the perfect partner for City National. As I spent time with Russell, Chris, and their management team, I became even more confident that it would be a great cultural fit with RBC, as both companies share strong commitment to client service and doing what's right for the client.

We announced the acquisition in January 2015, as you all know, and the transaction closed on November 2. It's a major milestone in the histories of both companies, and the largest acquisition RBC has ever undertaken.

City National is uniquely focused on serving high net worth and commercial clients in growth markets in the United States. It's a high-quality franchise with a long track record of profitable growth. But this transaction isn't about size -- it's about combining our capabilities to serve clients in a way that wasn't previously possible, and creating a powerful platform for long-term growth in the US market.

Although City National's premier brand and growth potential was reason enough for the purchase, we expect to realize synergies as City National's best-in-class product capabilities both enhance and complement our existing US businesses. Russell Goldsmith will be speaking next to highlight the merits of this great business.

Russell became City National's CEO in 1995 and grew the Company from $3 billion in assets to over $40 billion today. In addition to his role leading City National, he now also chairs our US wealth management group and reports directly to me.

Before I turn it over to Russell to tell more about this wonderful business, here's a video created on the occasion of City National's 60th anniversary just two years ago, highlighting the Company's remarkable history.

(video playing)

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

Well, I loved the movie; I hope you did too. When you can write your own movie, it works out pretty well. Dave, thank you for all those kind words about City National and about me. And good morning. I'm very pleased to be here today and appreciate this opportunity to talk about City National with RBC's shareholders and analysts.

As Dave mentioned, it's been over a year and a half since the merger was announced, and just over seven months since it closed. We were very enthused on November 2, and I would say we are even more enthusiastic today. I'd also like to emphasize how successful the process has gone.

The approach that was taken by the two companies has been, I think, relatively seamless -- no disruptive system changes; no changes in accounts or account numbers, checking accounts, checks. We have not lost any clients because of this merger, and we have not laid off one colleague because of this merger. Quite unusual, I think, for bank mergers that people have seen in the United States.

I recently had lunch with one of our most sophisticated clients, and one night we sat down, he said to me, so, yes, I know you are merging with RBC. When are you guys going to get that thing closed? I said, well, we closed it seven months ago. And that was really, I think, the best thing he could have said -- that the bankers he deals with are the same; the philosophy, the ability to get things done -- everything was seamless. So I think we're off to a great start.

And it's helpful to share with you today why, as Dave said, we were for sale, and it turns out Dave is a very persistent fellow and very persuasive. Because, obviously, here we are. So let me talk a bit about why we came to the conclusion that Dave and the Board had already come to.

I think after we got to know each other, we both saw that this was a very rare opportunity, both for RBC and for City National, as well as for our clients, our colleagues, the communities that we serve, and our shareholders. We both saw that this partnership would allow City National and RBC in the United States to go much farther and faster with more resources, more expertise and more opportunities than ever before.

So let me give you something of an overview of City National -- our market position, our business model, and our plans to grow, starting on slide 16.

As you saw in the video, City National was founded in 1954 by a group of entrepreneurs who saw the need for a bank that would meet the financial needs of other entrepreneurs like themselves. Our Company has never tried to be all things to all people. Instead, we focus on entrepreneurs, investors, their businesses and their families, meeting the full lifecycle of their financial needs.

We've also focused primarily on a select group of dynamic growing urban regions, as you can see on the slide. City National started in Los Angeles County, and we've successfully exported our model to other fast-growing and dynamic communities like Orange and San Diego Counties, the San Francisco Bay area, and New York City.

City National's success is also based upon developing strong industry specialties like entertainment, commercial real estate, legal services, healthcare and much more. We also specialize in some select industries like QSR franchise finance -- we are actually the fifth largest lender to franchisees of QSRs. For those of you gourmets out there, that's like McDonald's and Taco Bell. I recommend them as bank clients.

We are also very focused on equipment leasing technology. These are national businesses where we serve clients throughout the United States. City National offers its clients big bank capabilities and big bank bankers and industry expertise, together with real personal relationships in high-touch service typical of much smaller banks. City National also has a very strong credit culture and strong values.

As was mentioned by Chris in the film, we never sold subprime mortgages or toxic securities. All of these elements together help to explain why City National has been profitable in every quarter for the past 23 years.

On slide 17, you'll see that some of -- or that one of City National's greatest strengths is its strategic position in some of the world's largest and most attractive US markets. These communities include a very large number of high net worth households and thriving businesses.

In fact, the combined high network population of these three geographies alone is over five times larger than it is in all of Canada. And that doesn't even include our national businesses or other key geographies like Orange County, San Diego County and Nevada. Just as an example by itself -- which I think is often overlooked -- Orange County is bigger than 22 states in the United States, has 3 million people. San Diego, which is also about the same size in terms of population, nearly 1/3 of their households are deemed affluent.

Turning to slide 18, and as you've heard, City National specializes in serving high net worth households and commercial enterprises, and these are two of the fastest-growing client segments in the United States. Over the past five years, the high net worth population in the US has grown over 10 times faster than that of the US overall. Growth in commercial and industrial loans has also outpaced other loans by a factor of three. And these are the areas that we're focused on.

On the next slide, you get an overview of our range of capabilities and expertise as well as how we're organized. And I know you guys are good readers, so I won't read them all, but let me just briefly touch on a few points about a few of these.

In Commercial Banking, we cater to small to midsized businesses, and that represents about 20% of our loan portfolio. Our Specialty Banking Division encompasses a number of specialized areas. It's led by our Corporate group that has great experience -- I think it's probably the most sophisticated part of the Bank -- and has great relationships with a number of very successful private equity firms, and their portfolio companies and their executives.

This division recently hired a key banker to build a new Food and Beverage segment for us, and that's an interesting example of somebody that wouldn't have come to City National if we weren't a part of RBC, if we didn't have access to the capital markets franchise that RBC has in the United States, as well as the balance sheet capabilities that City National has backed by RBC.

Private Client Services is another important part of our business. It provides private banking generally to individuals and their families with at least $5 million in financial assets. Obviously, this is a primary focus for our wealth management business. This area also caters significantly to professionals and their firms, such as in legal services.

Obviously, we are quite well-known for our focus on entertainment. Here, in this division, we have the full range of banking capabilities -- Commercial Banking, Private Banking, Wealth Management and so forth -- focused on the entertainment and media industries. That's really a national business, and we serve it from Beverly Hills and New York, as well as outposts in Atlanta and Nashville.

And one of the, I think, most important things to know about our entertainment business, if you captured our credit philosophy, in a nutshell, we talk about it internally as no box office risk. So if somebody says, well, with this cast or this script, your loan will be okay --that's not a loan in our book. So we structure it whether it's in New York -- where we've became the bank for Broadway -- or in the rest of the country, whether we are banking country music or motion pictures, we are never in a position where our loan is dependent upon the ratings or the ticket sales of that particular enterprise.

Wealth Management is an area that we've grown over a number of years, with today, over $55 billion in client assets through multiple companies that provide our clients with choice, with the right investment solutions, that fit their needs, preferences and risk appetite. Our flagship franchise is City National Rockdale with about $28 billion in assets, largely through proprietary investment offerings, a wide range of proprietary, and some nonproprietary offerings, including our five-star MorningStar fund, our Emerging Markets fund.

What we call core banking or you would think of as retail or branch banking, we have 75 branches in five states, but we are clearly not a retail bank. In fact, you saw pictures of a couple of our branches in the film. Generally, our offices don't look like your typical bank branch, and we don't rely on our branches to the degree essentially all our competitors do. Core banking, however, plays a very important role for expanding the diversity and demographics of our client base, including banking small businesses; younger, high-potential clients; and SBA lending.

The next slide, number 20, says something about who we are and what makes us different in our view. We think we offer a unique combination of high-touch service solutions and advice, and that this value proposition produces exceptionally strong client relationships. Almost half of City National's key clients, as we define them, have five or more products with us.

These high satisfaction levels, in turn, lead to business referrals, which is the strongest source of our growth of new clients. What makes this all work is the remarkable talent of our colleagues as well as the culture and values of our organization.

Talent is a top priority at City National. We're very focused on attracting, retaining, training, and rewarding colleagues, and providing them with the tools and the ability to achieve their full professionals potential. Clearly, merging with RBC has enhanced that commitment and opportunity for our colleagues.

We are adding colleagues at a record pace, which is also, I think, something that distinguishes this merger. Last year, we added nearly 200 net new colleagues. This year, we are on track to add well over 400 net new colleagues to support our future growth, both on the sales side and the support and servicing side. As a result, over these two years, we will have grown our colleague base by over 15%.

Turning to the next slide, City National's success in its client relationships -- you got a little flavor for that in the film -- I think it's reflected as well in our advertising, which is personal, direct, targeted and timely. We also try to connect it to specific industries or specific communities.

So I thought it would be illuminating to show you, quickly, two 30-second spots that we run in select zip codes in the United States. So maybe we could play that video right now.

(video playing)

So you can see in both those cases, identifying with the Warriors has really rocketed our ability to be seen as a local bank in the Bay Area. And I might add, since joining the Warriors, they've done pretty well. (laughter) And becoming the official bank of The Tony's has also been a tremendous way to identify City National, both in the entertainment industry and in New York City.

And if you watch the Tony's, we ran some -- well, we wouldn't have run the commercials here in Toronto, so we are a little more efficient than that. But we ran that ad in the Tony's in some select zip codes -- very targeted, very direct, very timely. And the fact that they had the highest ratings in 15 years, I know we got our money's worth. So, that's what we try to do and try to -- hopefully, that gives you a better sense of the message we put forward.

As Dave mentioned, RBC's strategy to acquire City National was driven in part by the goal of adding our private and business banking capabilities in the United States to RBC's two other principal US businesses -- Wealth Management and Capital Markets. RBC US Wealth Management, as I've come to know over the past seven months or so, is a strong national business in the United States, with an attractive client base, a great culture, and a strong team of financial advisors and management executives.

Also, the investment management and advisory services that RBC wealth management offers are additive and complementary to the Wealth Management companies that we already have at City National. So what we've done over the past number of months is we've run three pilot programs where we matched up a local branch, as well as private and business banking, with a local RBC Wealth Management office. And we've done this in Beverly Hills, San Diego and La Jolla.

In each of these markets, we've had City National colleagues working alongside RBC's financial advisors for a little over three months. These pilot programs have helped us, I think, to refine and define exactly how we're going to march forward, and appropriately tailor our product offering and the way we work with the RBC financial advisors. We've done that tweaking, and we will be rolling out our banking capabilities throughout the City National footprint where it overlaps with RBC's Wealth Management offices.

Even though it's been a relatively short period of time, we've had nearly 300 referrals to City National that have led to booked business of almost $50 million. And we have about seven times that much in the pipeline.

Turning to the next slide, 23, we illustrate that the combination of RBC and City National creates a much more competitive value proposition for both companies. It's good offense and good defense for RBC's financial advisors. It increases the profitability of our shared client relationships, and it provides more scale and skills in functional and operational areas like marketing and technology, with support from some of our key City National executives.

The RBC/City National collaboration has already resulted, as those numbers suggest, in doing more with current clients and winning new clients. Let me provide a few specific examples across some of our key client segments, starting on slide 24 with high net worth clients.

I'll give you an example. So on November 2, we got a call from financial advisors, the day of the merger closing, that they had a company in Southern California with about $100 million in revenue and a terrific personal investment relationship with RBC. But the Company that the principles owned was really not happy with the bank -- a rather large, well-known bank, US money center bank operating in Southern California.

So RBC's FAs introduced them to our bankers. And thanks to a terrific team effort, we got about a $15 million commercial loan, a couple-million-dollars in deposits. They've got our credit cards, full treasury management. So, the client is very happy. They've improved their banking situation. The FAs are very happy because they don't have this other bank pushing to get their investment assets away from RBC. And City National is thrilled because we got an introduction to a client we otherwise would never have gotten.

Turning to slide 25, I think -- the combination of City National with RBC also enhances the Bank's capabilities and offerings to commercial clients, including those who operate on both sides of the border. We see tremendous long-term cross-border opportunity. In fact, Jennifer and I were just talking about that before we get started.

Remarkably enough, over 90% of RBC's commercial clients that are globally active are already doing business in the United States. Some of them need credit, cash management, or a variety of banking services in the US that RBC really hasn't been set up to fully provide until now. So, over time, we think this is a terrific opportunity for RBC's Canadian clients doing business in the United States who can be doing business with City National.

In turn, for City National's clients, we have a number of them doing business here in Canada, especially a number of our entertainment clients conducting business in what is sometimes referred to as Hollywood North. And so, as we put that together -- again, working with Jennifer's division -- we now have the ability to deliver banking services through RBC's leading Canadian bank.

So we are well-positioned to serve our clients in Canada, and we have already seen several examples of this play out. I mentioned that we are the bank for Broadway, and we had one of our most successful Broadway producers, who brings his hit shows to Canada, move from some other unnamed Canadian bank -- obviously, a lesser bank. (laughter) We were able to open the door, and now they bank at RBC.

They are finding that RBC -- the RBC experience is much more like what they are accustomed to at City National. So they're happy, and we don't have some other bank knocking on the door of one of our valued City National clients.

Looking at the next slide, and turning to opportunities for corporate and institutional clients who can now work with RBC Capital Markets -- and we can work with their clients, executives, and colleagues -- we see a lot of opportunity here as well.

As a number of City National clients move, as we like to say, on the way up, and get bigger and go public, or want access to public debt markets -- now City National can offer them the capabilities of the 10th largest global investment bank, including complex financial solutions that City National honestly would never have been able to develop on our own, such as the ability to do IPOs or M&A and structured products.

Partnering with US capital markets has already enabled us to take advantage of opportunities with several companies in the entertainment and technology sectors. For example, we have a terrific client in the biotech area; a client of City National. They were about to do a secondary. We introduced them to RBC Capital Markets.

RBC got a key position in the offering; they got a nice fee, but it also kept City National in the bank group going forward to preserve and protect what we think is a terrific relationship with a growing company. So, again, having the merger has really been beneficial for everyone involved.

Of course, given the bigger balance sheet of RBC, that gives us a greater lending capacity for a very select group of our most substantial clients. Since we are a part of that bigger balance sheet, we can take a bigger hold position, backed by the strength of the AA rated bank. And that has been very helpful as well.

On slide 27, you can see some tangible numbers, reflecting the initial progress already made possible through this collaboration during the first 180 days. In the short time since closing, I think it's actually quite remarkable what has been accomplished by our teams of colleagues, and I think it reflects the wisdom of RBC's US strategy and the quality of the three companies RBC now has in the United States.

And we actually have a video illustration that I thought we would run for you right now.

(video playing)

So, that's a terrific set of examples, I think, of the kind of enthusiasm that's out there, the way talented colleagues in both companies are just seizing upon opportunities and feeling they can do things that they never could have done before, and having great success both for our two companies as well as our clients.

Let me turn to slide 29 here and talk a little bit about the growth potential, first, in our existing footprint. Clearly, we're well-positioned in the top three markets in the United States for high net worth clients being in New York, Southern California, and Northern California. That represents over $6 trillion of investable wealth just there.

Even though City National's assets have grown considerably over the past few years, our market share in our key markets outside of Los Angeles remains less than 1%. Leveraging the strength of our brand and business model with RBC, we see significant growth potential indefinitely. One example is New York City. It is our largest market outside of California, and in fact, is home to three times more high net worth individuals than all of Canada.

In 2002, we opened our first office in Manhattan with just about six or seven people largely to serve the entertainment industry and private banking, especially legal services and accounting firms. Today, we have two full services -- full-service offices plus City National Rockdale's new offices, and $5.5 billion in loans and deposits with over 200 colleagues in the city.

We have recently received regulatory approval to open a third banking office, which we accelerated because of the merger, and it will be located in the same building complex, in World Financial Center, as RBC's US capital markets headquarters. And we are planning on that opening in August.

I'd like to highlight that RBC has about 2,300 successful employees in New York; many of them potential new clients and referral sources for City National. In fact, I think Dave promised that their bonuses would be directly deposited into their City National accounts. (laughter) So, having Dave as your business development officer is turning out to be a heck of a good deal.

Of course, we see plenty of room for growth in California. California was just announced as now the sixth largest economy in the world, all by itself. We just passed France, which I'm quite delighted about. California is a global leader in tourism; technology; life sciences; entertainment, of course; manufacturing; international trade -- 40%, for example, of the waterborne goods that come into the United States come through the Port of Los Angeles in Long Beach -- and other areas make California's economy quite dynamic.

Of course, turning to slide 30, City National also can and will grow beyond its current footprint. We've also begun some exploratory work on expanding into a few new select geographies over time that will present attractive growth opportunities for us. As always, we are particularly interested in dynamic growing urban economies where the competitive landscape presents some opportunities for us, and where either City National and/or RBC enjoys some brand recognition, have some critical mass, and where we can attract the right talent.

In closing, after seven months together, the strategic vision that RBC's Board and its management had when they purchased City National, appears to me today to be even more promising and more exciting than we thought when -- certainly when Dave and Mike Dobbins asked me to dinner in San Francisco in 2014.

As a part of RBC, City National and RBC have a clear path to synergies that will drive strong quality growth in our US businesses going forward, and help us to achieve our ultimate goal of becoming North America's premier private and business bank.

With that, I want to turn to our next speaker, our Chief Financial Officer of City National Bank. Chris Carey has over 30 years of experience as a financial executive in the banking industry, and has been an important leader at the top of City National for over 10 years. He's going to take you through some of the details of our strong financial performance.

Let me turn to Chris Carey.

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**Chris Carey** - *City National Bank - EVP and CFO*

Thanks, Russell. Good morning, everyone. I'm really disappointed I don't have any videos for you, but I'll just take you through some of the financial stuff, which is just as good anyway.

So we are quite proud of our 23-plus years of profitability, and I'm happy to be here to walk you through some of the highlights of our strong financial performance. Starting on slide 33, City National's client and market strategy has produced a strong track record of both loan and deposit growth, handily outpacing the industry average.

Moving to slide 34, City National has a market-leading deposit franchise across a branch-light footprint. In fact, its average deposit per branch are over 3.5 times the median of US banks. As you saw in the previous slide, we have grown our deposits by almost 50% over the past five years. This remarkable growth reflects the confidence of our clients who continue to add to their deposit balance and from increasing our market share.

Another driver of City National's success is the low-cost nature of this deposit base. We have a very low cost of deposits at 3 basis points, which is well below the US bank median at approximately 23 basis points.

Our leading deposit franchise is also well-positioned for rising rates, as almost 2/3 of our deposit base is non-interest-bearing, and nearly 80% of our loans are either floating or adjustable rate. We estimate that for every 25 basis points increase to interest rates, we would expect net interest income to grow by about $35 million.

While we were pleased with the Fed's decision to hike rates this past December, we recognize, given the uncertain market environment, that it may take some time to see an appreciable rise in rates from here. We believe there really are a few banks that stand to benefit as much as City National does, as short-term rates rise over time.

Turning to slide 35. We share very similar credit risks and risk cultures to RBC, which has made the transition with RBC go very smoothly. Our credit performance has outperformed the industry throughout the cycle. In 2015, we recorded 2 basis points of net charge-offs on our loan portfolio, well below the US industry average of 41 basis points.

This performance can be attributed to the quality of our clients, our strong risk management, and diversification by product and industry. The loan book is high quality, reflecting the lower credit risk of our clients, and a culture of strong credit underwriting. Our mortgage borrowers, for example, have an average strong -- have average strong FICO scores and a loan-to-value ratio of almost 50%, which is reflected in our history of low losses.

Turning to slide 36. Over the past five years, we have grown both our asset and deposit base over 50%, with earnings growth growing an average of 11% per year. 2015 was a record year with record results and record new loan commitments. We achieved these results while maintaining our focused discipline on risk. We have seen this momentum continue for the first half of 2016, and as Russell mentioned, we are excited about the opportunities for growth that lie ahead.

For the first half of 2016, in US dollars, reported net income was $89 million or $162 million, excluding the impact of integration and transaction-related costs, and the amortization of intangibles -- and this is ahead of our expectations. We also ended the first half of 2016 with total assets exceeding $40 billion for the first time.

We have seen solid business growth of loans up 15% in the second quarter as compared to the prior year. This growth was partly driven by an increase to the number of our client-facing colleagues, which is up 14% over the prior year.

Our results also reflect the ongoing growth in our deposit book. In the second quarter, deposits were up 22% as compared to the prior year. Excluding approximately $3 billion of RBC's sweep deposits, our core deposit growth was a strong 15% over the prior year. On a reported basis, NIM was flat quarter-over-quarter. However, we saw an uptick in our adjusted net margin, up 5 basis points sequentially, reflecting the benefit of a full quarter of higher interest rates in the United States.

Finally, our loan book continued to demonstrate strong credit quality with a PCL ratio of 9 basis points. As you can see, we are off to a strong start as a combined company. We believe that we are well-positioned going forward, giving the strong business growth we've seen so far. Our sensitivity to rising rates, stable credit trends, as well as the benefits of exceptional colleague and client retention that we have achieved.

Thank you all for your time. And I will now pass the podium to Janice.

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**Janice Fukakusa** - *Royal Bank of Canada - CAO and CFO*

Thanks, Chris, and good morning, everyone. We believe we have a clear path to deliver on synergies and returns that is based on, first and foremost, continued strong growth in City National; deposit and expense synergies; initiatives to drive revenue growth; and leverage to rising interest rates.

Turning to slide 39, as you heard from Russell and Chris, City National has a track record of strong financial performance, driven by their unique client and market strategy and high-touch approach. We've seen this momentum continue for the first half of 2016, driven by double-digit growth in deposits and loans.

We estimate that the transaction will be -- will add approximately CAD350 million to earnings in 2016 before the amortization of intangibles and integration and transaction costs. City National's balance sheet is forecast to grow in excess of 10% each year through 2020, driven by organic growth as well as additional hiring of sales and support staff in existing markets.

And turning to our integration, it is proceeding well and as planned. What's critical is that this is a light-touch integration to preserve and enable City National's core performance. Our key control functions were successfully aligned on day one. And, in fact, we were able to bring City National's general ledger to RBC in just over a week. And as someone who has been just a few integrations, that is no small feat.

Last January, we estimated that our total transaction and integration costs would be $180 million before tax. Today, we expect our actual costs will be lower than this estimate by 25% to 30%. And we expect to incur over three-quarters of these costs by the end of 2016.

Turning to slide 40, deposit synergies represent one of the opportunities unlocked by this transaction over time. We currently have approximately $16 billion in sweep deposits in US Wealth Management that were previously deployed to money market funds or third-party banks. We can now use part of these low-cost sweep balances to fund City National's future loan growth. We expect the benefits of these deposit synergies to generate a run rate of at least $40 million pretax by 2020.

We also plan on driving additional deposits from our Wealth Management and Capital Market clients through the benefits of cross referral and the collaboration that Russell referred to. Further, clients value our AA rated balance sheet -- I just wish it was AAA, but AA is great too. And we believe City National can now attract incremental deposits, as you've heard from Russell, on this basis.

We've made a solid start to realizing some of these deposit synergies since the close of the transaction on November 2. We've already added $3 billion of deposit balances onto City National's balance sheet, and expect to add an additional $2 billion by the end of this year. On the expense side, while we will preserve City National's high-touch strategy, there is opportunity to achieve synergies, including achieving benefit to scale in areas like procurement and technology. We're tracking well from a cost perspective, and estimate that expense synergies will be at a run rate of at least $80 million pretax by 2020.

Turning to slide 41, as Russell discussed, we see many opportunities to drive revenue growth, including cross-selling City National's products to RBC clients and vice versa. And as you've heard today, we're already seeing the benefit of collaboration between all of our teams. In addition, we see many long-term growth opportunities, including City National's market penetration in its existing footprint, and accelerating expansion into new high-growth markets.

Last January, we disclosed that we expect these growth initiatives to add at least $90 million to our revenue run rate by 2020. I want to highlight that this estimate did not factor in any of the synergies you've heard about in terms of capital markets or cross-border clients. So, as a result, we expect to achieve this run rate synergy ahead of schedule.

So turning to slide 42, we've outlined our roadmap to deliver the targets we first laid out when we announced the transaction. And it's still very early. Remember that we're only six months into this, and we see a clear path to success.

As we've detailed today, this success is based on the continued strong growth of the core City National; delivering on synergies across deposit, expense, and revenue initiatives; and the potential upside from rising interest rates.

Slide 43 brings it all together over a five-year horizon. We forecast that by 2020, City National would generate approximately $1 billion of pretax income, which is more than double 2015 results. This translates to a CAGR of over 20% over the next five years. These estimates rest on a number of assumptions, so let me walk you through the waterfall chart.

Starting with organic growth, we estimate that City National's core growth approximates the annual growth on the balance sheet of 10%-plus. Turning to synergies, this forecast assumes that we only achieve year-five the $210 million of expense, deposit, and revenue synergies we've outlined on the previous slide. And on leveraging to rising rates, as Chris explained, City National has significant leverage.

This estimate here is based on the forward interest curve, which forecasts an increase to US interest rates of approximately 110 basis points through 2020. As a 25 basis point increase translates to approximately $35 million in net interest income, four hikes would translate to $140 million or so based on today's balance sheet.

Taking into account the expected growth of the loan book, we estimate that in five years, the benefit from rising rates could be in the range of $250 million to $300 million. So, overall, you can see that we have a strong growth trajectory planned for the next five years.

Now we also believe that some of these assumptions are fairly conservative. In addition to interest rates -- rate increases greater than 1% over the next five years, if our assets and deposits continue to grow in excess of 10% while remaining within our risk profile, we are confident that our earnings will be higher. And you know that they are tracking above that right now.

I would point out that the capital necessary to support the business growth in this five-year outlook is fully funded by earnings accretion. We've not included additional capital deployment, which could further increase our growth rate. So we will continue to update you on our progress and provide very transparence disclosures, so that you can measure our performance against this plan.

So turning to slide 45, to wrap it up, as we've highlighted today, we have a strong foundation in the US. By combining RBC's scale and strength with City National's capability and position in very attractive markets, we believe we will create a powerful platform for long-term growth in the US, and advance our goal of becoming the leading provider of selected services to high net worth and affluent clients and their businesses.

And with that, we will take a 10-minute break before we open it up to your questions. Thank you.

## QUESTIONS AND ANSWERS

**Dave McKay** - *Royal Bank of Canada - CEO*

So you can see why we're so excited about this journey, and there's so much opportunity here. And we'll get into all of your detailed questions right now. So, who wants to go first?

Right here. Peter.

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**Peter Routledge** - *National Bank Financial - Analyst*

Peter Routledge, National Bank Financial. Just -- I don't want to ask a question about the past. Sort of I want to frame it as a question about how you're going to manage integrating the City National operating model with RBC. And it seems to me, the last foray within the United States could have gone a little better. What are you going to do differently?

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**Dave McKay** - *Royal Bank of Canada - CEO*

I think we've already done it. I think we've taken a completely different approach to this merger and integration than we did with previous forays into the mass retail space in the Southeast of the United States.

And, as Janice referenced, this is a light-touch integration where we are integrating control functions like finance and compliance and risk, who will have dual lines between Russell and the functional heads -- global functional heads here. But really, this is about allowing Russell and his team to do what they do so well and managing their clients, making business decisions and running a great business.

When you have a chance to bring a 22-year tenured public company CEO into your organization -- and CFO -- of incredible pedigree and track record, we'd be crazy not to lever their expertise and talents. So this is about light integration, and allowing them to continue to run their client franchise model the way they have exceptionally done before, and to continue to grow.

This organization is used to a double-digit cadence and how to manage double-digit growth cadence. They've proven, over time, they can do that. So I think we've already embarked on a completely different journey, which Russell told you in a number of stories that he's seen from clients and staff, this is about growth. So, I sense we're off on the right foot.

We've thought a lot about it, Peter. We sat down -- even before we took this journey, we sat down with the Board and we said, what did we learn from the mistakes we made in the previous strategy? And a lot of it was, we thought we would come in and change the strategy and bring a Canadian strategy, and bring it to a US retail bank. And that didn't work -- it didn't work.

This -- the first thing we had to do was find a crown jewel franchise with a management team that could lead us in the future. And I think that's what we found and that's why we waited patiently for Russell and his team to come along, and why we had to find such a great company like City National. So I think that's -- I think we've already done it. And we are really excited.

Any perspective from your side on light-touch and how it feels?

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

You know I think that everything that Dave and the Board talked to us about with regard to this term light-touch really has been what's happening. I mentioned a few things in my talk. Not one colleague laid off. The fact that our entire management team is intact. People say, well, how many Canadians are now down in City National? And --

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**Dave McKay** - *Royal Bank of Canada - CEO*

Two.

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

Two?

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**Dave McKay** - *Royal Bank of Canada - CEO*

Two, maybe three.

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

More than a few visits from time to time. (laughter)

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**Dave McKay** - *Royal Bank of Canada - CEO*

That was because it was January and it was cold.

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**Janice Fukakusa** - *Royal Bank of Canada - CAO and CFO*

Only in the winter.

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**Dave McKay** - *Royal Bank of Canada - CEO*

That's the Board -- we took the Board there.

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

Exactly. And that -- actually, it was a lot of fun. And I think the fact that we are not integrating into the computer systems; we are able to make decisions essentially with a very few, very large exceptions. We make the same decisions. I have the same authority virtually that I had before, because I did deal with the Board of Directors and shareholders of a public company.

I know on the credit side, we haven't talked a lot about that -- our Chief Credit Officer has a great rapport with the team here in Toronto, and really only goes to them on a handful of very significant loans, and would have had to talk to the President of our Bank or me on that in the past. So -- and the response here in Toronto for Brian Fitzmaurice, I think, has been very quick and the two companies are very aligned.

So where we do cross-connect, in fact, is where we should cross-connect, and I think it's gone very well. So you know I think Dave and the management team have lived up to it. And as I said in that one example, our clients really haven't noticed the difference unless they've needed or wanted the benefits of the merger. And that's unlike any bank merger I've been able to witness over the last 21 years.

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**Meny Grauman** - *Cormark Securities - Analyst*

I'm Meny Grauman from Cormark Securities. On a related note, I mean, we've seen many a great merger on paper kind of fall apart because of culture . And I guess from your perspective, Russell, was the cultural fit a big issue for you to get over? And what gave you confidence that the cultures could come together?

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

Well, as Dave outlined, we spent a lot of time getting to know Dave in particular, and Mike Dobbins. And the due diligence process was thorough -- would be an understatement. So they really got to know us and we really got to know them.

RBC did a very intensive dive into our loan portfolio. And I think we could see from their reactions to that, that it was a good fit around the core product of both our businesses, which is loans. And we got to know a lot about the values of RBC -- the fact that this is a company that went through the financial crisis, as we did, with great strength, great integrity. We gave out free copies of Flash Boys to whoever wanted one, and some people who didn't. (laughter)

And, look, some of it's instinct -- I mean, getting to know Dave. And I think you guys have a sense for who he's like as a leader. And so I think you just -- whether it's corporate history, culture, values, the track record, the key people in management -- you just go through all that and you hope after all these years you are a pretty good judge of character.

And I think Chris Carey -- Chris went with our President; Brian Fitzmaurice -- I mentioned some of the other key players who interacted -- Mike Cahill, certainly our General Counsel. We've got a pretty strong management team -- experienced group of people. They interacted with counterparts through the due diligence period.

And so we could compare notes. And as Dave said, we weren't for sale. I think we shocked our management team, our shareholders, all sorts of people that we actually agreed to do a deal. And we went through a number of checks, and one of those was certainly matching up with counterparts people and having our executives and our Board feeling good about it. And as we've obviously suggested today, seven months in, it has lived up to our expectations.

And I would say in my interactions with the Board -- Katy Taylor -- they've made it also extremely clear that what Dave has said and committed to also reflects the strategy of the Board itself. So we take that very seriously.

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**Meny Grauman** - *Cormark Securities - Analyst*

And if I can just follow up with the question about the product offerings -- so you definitely made a strong point in terms of showing the additional capabilities that you can get or the combination can deliver. When you look at your competitors, are there still some capabilities that you don't have relative to some of your competitors that you wish you would have? Or does this really complete the circle for you in terms of all the pieces that you need relative to your competition?

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

That's a great question. And I think the answer is kind of a yes and no answer. I mean, I think, yes, we have an incredible array of capabilities today, and there's really, in today's world, virtually nothing that we can't do for our clients in financial services, certainly when you compare us to any kind of integrated top 10 US financial services company from Capital Markets to Wealth Management.

We have a number of proprietary capabilities even that we had at City National that are competitive advantages that our competitors don't have; we have a few of those. So we feel great about it. And we've added, with this merger, an awful lot of tools to the tool chest that we are getting to know how to use.

And at the same time -- and it's one of the areas Dave and I talk about a lot, including over lunch yesterday, we are very focused on technology on fin-tech, on what's happening out there. And I think part of the excitement for both of us is the fact that City National -- we've got some really smart people. We focus on this being based in California -- our technology business up in Palo Alto as well as Boston, New York and Santa Monica.

Part of why we do that is to kind of really understand what's happening. We invest occasionally in some of these businesses. We co-develop some of these businesses. But I think everybody in this room is quite aware of the disruptive nature of technology. I think it's been fascinating for me over the last 20-plus years.

Technology has actually been beneficial to City National, on balance. As we talked about, we have a light branch structure. We use technology in a variety of ways, which I could talk about. But I think at the same time, to your question, we are keenly aware there's an awful lot of people out there developing a lot of technology that would like to disrupt financial services. And I think being partnered with RBC actually enhances City National's long-term glide path to be successful in a disruptive ecosystem.

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**Meny Grauman** - *Cormark Securities - Analyst*

Just a question on how we should expect the balance sheet composition to change with that cross-sell with the capital markets group? Is City National expected to write a $400 million loan to help close the deal that RBC Capital Markets is working on? Or will those remain independent above certain thresholds?

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**Janice Fukakusa** - *Royal Bank of Canada - CAO and CFO*

Why don't I start with that? So City National itself has, of course, their own underwriting and limit criteria. So I would say that when we refer to taking on larger holds, it's well within the risk appetite of City National. If -- what we would do in the incidence of Capital Markets having a larger commitment, if they are doing a commitment risk for underwriting, that that is clearly a Capital Markets product, a Capital Markets service that they are providing, so it would be on our Capital Markets balance sheet either through our branch or through our broker-dealer.

With respect to City National, we are preserving City National as a bank with its risk appetite, with its capital structure, all of that. And what you see in terms of the growth trajectories there are for City National only. The synergies are arising from other areas but they are all the synergies that City National is benefiting from. So the flipside of your question on the loan exposure, it has to do with how the revenue is being split.

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**Dave McKay** - *Royal Bank of Canada - CEO*

It's really not the strategy; the strategy is to lever the balance sheet to grow new clients and grow City National's client franchise as it's defined now. So that is the benefit and that's the target here. And that's why we're excited about the synergies.

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

You know I think it gives both companies enormous flexibility. And I could give you a couple of examples if you want. And I think with Blair Flemings' leadership, we've developed a great partnership between the US Capital Markets business and the Bank. There is a very significant entertainment company that we've historically lent money to and RBC Capital Markets has lent money to. They are doing a new facility.

And so basically -- in fact, Blair and I called together on the CEO; it was a long five-minute walk from our Beverly Hills office -- and we are, in effect -- just as Janice is saying -- we are taking a substantial position on our balance sheet, but one that's a size that fits our position as a 40-some-billion-dollar bank.

Capital Markets is taking a position that's appropriate for them and not that different from what they've had in the past. But when you put the two of us together, it puts RBC/City National in the top tier of this relationship and opens up other possibilities going forward.

We had another example with actually a Canadian-based entertainment company where we are partnering with RBC and leading a very substantial financing. So we are regulated by the OCC. We have our own Board of Directors. We continue to comply with the highest standards, but we have this ability now to partner. And the flexibility, whether it's through Capital Markets or RBC itself, gives, I think, the whole set of companies the ability to do more for its clients.

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**Dave McKay** - *Royal Bank of Canada - CEO*

But we -- just for greater comfort, we would have one single name across all our divisions for that customer. So I heard the question as being, will you split up the single name risk to get a deal? No. At Mark Hughes's level, he will have a consolidated single name across all our subsidiaries for a given client.

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**Rob Sedran** - *CIBC World Markets - Analyst*

A couple of quick questions -- it's Rob Sedran from CIBC. First one is the Canadian banks seem to like to put their logo on everything. Is this ever going to be RBC/City National? And then I think I heard from Janice that the synergies and the targets were all based on organic growth and there's a potential for capital deployment. So when you look at some of those other markets that Russell was talking about, is that acquisition or de novo expansion?

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**Dave McKay** - *Royal Bank of Canada - CEO*

So two great questions. I'll start -- we haven't really thought through in its entirety the longer-term brand architecture, but City National has an incredible brand and brand relevance, particularly in its core market of California, that RBC doesn't have. So I would envision that there is a dual brand structure for the foreseeable future.

There's benefits to both brands; we have to think about the architecture of that brand and how we extract the most value out of both brands. So, I think there's enormous power in bringing this together. But it's a great question.

We wanted to get in and see the synergies and just talk to clients and see how clients feel. And Russell and I will think through with others what the longer-term brand architecture should be, but it's all designed around winning the marketplace in the core customer segments that we want.

So the long answer is -- great question -- we've got lots of flexibility around it, but we'll do what's right for the long-term health of the franchise trying to lever a number of great brands, particularly the City National brands, in the core markets where we want to grow. So that's a real asset that we have and why wouldn't we continue to nurture that asset?

As far as organic versus inorganic growth, we did present primary -- and you heard it in my comments -- that we have an enormous opportunity in the sixth largest economy of the world to organically grow, and we have less than 1% market share and deploying capital into that market is an enormous opportunity for us to grow organically. And as you know, that presents the greatest return to shareholders. So absolutely, that's our first and foremost thought and that can keep us busy for a long period of time.

You saw us -- you saw Russell put up a couple of other ancillary markets -- whether it's Washington or Texas you saw -- as core markets, building out around our core strength in Minneapolis with our broker-dealer space. If something were to present itself that accelerated that organic growth and presented an acceleration of our growth objectives, and was efficient for our shareholders at the same time -- and that's a big second if -- we would consider it. But we don't need to do it.

And you saw all the opportunities there. We are focused as a group on organic growth rate now. But we have the strategic flexibility to look at something if it's a tuck-in rollup that accelerates that. But our discipline around shareholder return, I think, would be very, very high. And it would have to meet a number of key objectives to do that. But we have that optionality going forward.

And that's why this first step back into the US around this customer segment was so important to create that strategic flexibility that we have. But really you see there's an enormous amount of organic growth ability here for us to focus on executing.

**Sumit Malhotra** - *Scotiabank - Analyst*

It's Sumit from Scotia. A couple of questions -- one short-term numbers and then another one on longer-term strategy.

Janice, just on the numbers, I think you mentioned $350 million is what you are expecting from -- or the City National contribution to be for 2016. Halfway through the year, basically the numbers you've given us has been better than that. I think you are around $230 million. So was there something unusually good in the first half? Or is there a headwind you see in the second half of the year? That's the numbers one. I'll go to the strategy after that.

**Janice Fukakusa** - *Royal Bank of Canada - CAO and CFO*

Okay. Thanks, Sumit. I knew that you would catch that question and someone else asked us that on the break. So yes, it has nothing to do with the trajectories of City National; it's just our bias whenever we forecast to more conservatism on trajectories. I think that we -- our expectation is for us to exceed that -- the $350 million, but we don't see any particular headwinds. It's just a forecasting bias we have, to always sort of underpromising and overdelivering -- similar to what you do all the time, right, Russell? (laughter)

**Russell Goldsmith** - *City National Bank - Chairman and CEO*

Well, we try.

**Sumit Malhotra** - *Scotiabank - Analyst*

So that's the shorter one. So then this one is probably for Russell. Along with City National, you now have responsibility for aggregate US wealth for RBC. And both Dave and Janice have talked for a number of years now that, particularly in the US wealth portion of the business, the returns haven't been where they would like them to be to get that pretax margin higher for the segment as a whole.

The Dain Rauscher business that Royal bought was much more -- I'll call it midmarket than what you have at City National. You gave us a couple of examples in the video. But as you get your arms around that business, how do you think it fits with the higher net worth offering that City National has had? And what do you think has to be done to high-grade that franchise?

**Russell Goldsmith** - *City National Bank - Chairman and CEO*

You don't have a large question. (laughter) It's a great question and it's actually been really interesting to focus on this business over the last number of months. I think part of the wisdom of the strategy that RBC has had and by putting this business under me as well, the wealth business didn't really have the credit capabilities that so many of its competitors have.

So when you compare the numbers at, say, a Morgan Stanley versus RBC's US business, not having that credit component makes a huge difference in the performance financially. So that's -- as I indicated a little bit in my remarks -- what we're starting now to having completed the pilots, we are going to roll out more credit capabilities. And I think that's going to improve the financial performance when you roll it all up, and Janice presents it.

So I think there's that aspect that will be helpful. I think we've had some leadership changes there that I think are going to also prove very helpful. I think it's significant you talk about a successful merger. I think the fact that the FA team that's there has remained in place through this transition, and we've actually been adding some terrific people. And I think having City National as a part of the product offering is going to, over time, enhance the ability to attract some terrifically talented people.

We're going to make some improvements in the technology and marketing that the business is doing, and I think that will help drive revenue and improve performance over time. And so I think there are a number of things happening there.

To your question also about City National's focus versus their focus -- obviously, when you've got, I think, over 300,000 clients in a business, there are a lot of them that are, A, not in our footprint or B, aren't necessarily clients that are going to make a real difference to City National. But it doesn't take a very large percentage of 300,000 clients to bring them into City National. It can make a huge difference actually to our performance as a bank.

And the example I gave about that company in California -- there's an example of a company -- sometimes somebody can be a relatively small or significant personal investment client, but they're the Senior Vice President at a commercial company that can be an enormously valuable client. So I think it's a very significant pool of potential clients and referral sources.

We are going to push that through our footprint, and I think by the end of this year, will have pretty well deployed capabilities. And we will see over the next few years that there are enough clients that are of real interest to us to make a difference. And on a consolidated basis, that's going to improve profitability, whether you want to look at it from the City National side or the RBC side.

And then as we start to move organically or more aggressively, as Dave touched on, into a few of the markets where RBC has a significant concentration of financial advisors -- whether that's, as Dave mentioned, Minneapolis or Texas or some other places. And then as I mentioned, we have national businesses. And again, going back to technology, we have the ability to deliver some capabilities, even if we aren't physically in the footprint.

So all in all, I think it's an exciting time for the Wealth Management space. This is something they wanted. It was in their strategic plan to have a private bank and a business bank to make them more fully competitive. and I think City National can provide that to them.

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**Dave McKay** - *Royal Bank of Canada - CEO*

So I think it's important to highlight in a waterfall that you saw did not include our US wealth broker-dealer profitability. So, all the things that Russell is doing there, we think there's an improved profitability journey which would add another -- Janice, what? -- $350 million roughly pretax to that waterfall?

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**Janice Fukakusa** - *Royal Bank of Canada - CAO and CFO*

Yes.

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**Dave McKay** - *Royal Bank of Canada - CEO*

$300 million -- $350 million pretax? So the total prize here for us in the US Wealth Management that Russell is running is closer to $1.4 billion -- $1.45 billion when you include our existing broker-dealer and the work Russell is doing there. So that is all additive to that. And again the sweep deposits are an incredible synergy coming out of that US wealth franchise that we've already highlighted in the waterfalls.

I'm going to jump to a question from Gabriel Dechaine on the webcast. And Gabriel is asking, is part of your balance sheet optimization initiative motivated by capital required to support double-digit growth at City National? Is one dependent on the other?

And Janice, do you want to talk about --?

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**Janice Fukakusa** - *Royal Bank of Canada - CAO and CFO*

Yes, why don't I -- yes, I'll --

**Dave McKay** - *Royal Bank of Canada - CEO*

Actually optimization -- I guess particularly he's referring to Capital Markets balance sheet optimization that we've been through.

**Janice Fukakusa** - *Royal Bank of Canada - CAO and CFO*

Right. So you have seen how we are optimizing our balance sheet and keeping our RWA growth low. The crux of that optimization is more about using that capital more effectively to be accretive to return on equity.

So in terms of having to get our balance sheet down to accommodate City National growth, I would say that that's not really a driver for us, because as you know, we accrete significant earnings every quarter. And what it is about is using the growth of the capital for the highest invest use.

And if we look at, for example, the growth that City National is driving, it's client-based, very high ROE growth, because it's about multiple products to clients. And so in any of our balance sheet optimization exercises, it would tier up to be the first or virtually very high on the list in terms of allocating capital to. So one really is not about another; it's about maximizing our returns for our shareholders.

**Dave McKay** - *Royal Bank of Canada - CEO*

I think the greatest proof point -- we announced a share buyback program. (laughter)

**Janice Fukakusa** - *Royal Bank of Canada - CAO and CFO*

Right.

**Dave McKay** - *Royal Bank of Canada - CEO*

It would reinforce what we're doing, if that was the case. Why don't we take some more from the floor?

**Natalie Taylor** - *CIBC Asset Management - Analyst*

You gave some examples of collaboration between RBC and City National. I'm wondering how you've institutionalized that and how you changed the compensation structure internally to propel those referrals?

**Russell Goldsmith** - *City National Bank - Chairman and CEO*

For the RBC side or --? Always the answer. (laughter) I was hoping it was just the RBC side. Look, our -- on the bank side, obviously our people are in a pay-for-performance culture, and so they're motivated by growth and excited to have the opportunity and additional referrals.

In the Wealth Management business, part of what we've been working through with these pilots is tweaking the compensation formulas so that financial advisors do benefit with referrals, because we want to look at the clients. One of the wise aspects of Dave's insidious plan of putting me in charge of this is I'm completely agnostic whether the client revenue is in Wealth Management or in the Bank. And so we've taken that philosophy.

If somebody is an important client in Wealth Management, that's how we see them at the Bank or vice versa. And similarly, they're in a pay-for-performance culture. So they have a whole structure of, if you will, a waterfall, how revenue gets divided. And so if once they've had the proper education and certification, if they then refer a mortgage, they benefit to some degree from it economically.

But I think the opportunity goes beyond individual compensation and financial rewards. That's important and I get that. But I think -- and there's a culture and an understanding in both cultures that if you can provide a client with all of their financial services and products in one company, City National and RBC, that that's a more satisfying relationship.

As I said in my remarks, it's not only good offense financially, it's good defense versus the competition. So I think we've appealed both to their financial interest but also to the broader recognition that doing the right thing for the client, providing them with the capabilities, having them fully served by the combined Companies, is the best long-term strategy. I think that the colleagues get that and that that's very motivating as well.

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**Sohrab Movahedi** - *BMO Capital Markets - Analyst*

It's Sohrab from BMO. You've talked a lot about shareholder returns. Janice, if you are able to hit the City National standalone forecast by 2020, what would be the return on invested capital?

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**Janice Fukakusa** - *Royal Bank of Canada - CAO and CFO*

It would be close to or at 10% invested capital all-in, what we put out. And as you heard, Sohrab, we think that that's a conservative forecast. So we would be hitting -- and we talked about, when we did the acquisition, approaching hitting a -- that 10% threshold for us just above our cost of capital; further down the road, I think we talked about it after five years.

So we have really accelerated that, given the trajectories we see, and we think that some of the earnings trajectories you saw are slightly conservative. So it is tracking to exactly what we saw in terms of performance, if not better than the performance that we saw when we did the acquisition.

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**Sohrab Movahedi** - *BMO Capital Markets - Analyst*

Okay. And then just for -- maybe for Russell, I mean, obviously you've identified a variety of markets bigger than Canada, but I assume those are already well-served markets. So are you going to have to compete on price? Are you going to -- how do you get this growth in an accretive fashion?

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

Well, I think if you look at the performance that we've had over the last number of years -- I mean, the Bank has more than doubled since 2009. And I think it's really a combination of all the things that Chris and I were trying to talk about and that Dave discussed.

So with that -- if you made a list of people, values, products, brand, marketing, et cetera, the answer is going to be all of the above. I mean, I think New York or the San Francisco Bay Area are two good examples we put up on the screen where we've come into these markets. New York, we've done it entirely organically except for the purchase of Rockdale, and moving that into our asset management business.

San Francisco, we've done it organically but built on two small acquisitions that we did -- gosh -- about 15 years ago. So I think we have a track record of organic growth sometimes with, sometimes without acquisitions. But basically, it's grinding it out. It's a combination of all the things that we do in terms of people, marketing capabilities and so forth.

And it's performed well. I think the fact that each of these businesses, each of these regions, has grown as significantly as they have on the one hand -- you know, roughly $5.5 billion in loans and deposits in each of the New York area and the Bay Area. And at the same time, tremendous upside to growth. Obviously, we are in a very competitive business with competitors.

But our competitors seem to create opportunities for us. One of the ways we compete is I think being a very attractive place for colleagues to -- or potential colleagues to come to City National. I gave the example of this Food and Beverage unit, and there is a gentleman who could have gone any number of places, but because of how he sees City National and he's betting his career. So these aren't just words.

He indicated he wanted to come to City National especially because of we now have the support of RBC, because his client base is a higher end client base. And so things like hold position and the access to the Capital Markets capabilities were important. So I actually think our ability to compete is enhanced. And then when you take all the referral opportunities that we talked about in my remarks from Capital Markets -- their colleagues, their clients, 1,800-plus financial advisors and their clients, and their ability as referral sources -- I think our ability to grow without RBC has been significant, as Chris showed in his slide.

And then Dave and I were calling it booster rockets. You take the booster rockets -- I'll give you another perfect example. So November 2, the merger closes, Dave was there; spent a lot of time with our colleagues and my father, in fact, which was really great. And on November 3, we went on our first road trip together and called on a particularly interesting technology client who now has seven-figure deposits sitting in a checking account. And it's enhanced the corporate relationship. And so if all else fails, I'm deploying Dave as our Business Development Officer. (laughter)

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**Chris Carey** - *City National Bank - EVP and CFO*

Can I just add one further comment to all that? Not to take anything away from the great sales effort of Dave and Russell. But one of the things we've done different than most US banks is we've increased our sales force by about 8% a year over the last five years. It's a very competitive market. Price is an issue. The pricing is not great but we have ROE models that we price everything with.

So that is a key part. Besides being in good markets, like we are -- we are selectively in good markets -- and we have specialty business, but most banks aren't increasing their sales force like that. And a key thing that we are doing now is we are accelerating that growth in the sales force, which, while it's challenging, we are actually overachieving there a little bit right now, which we are happy about. It's a part of what's helping to fuel our overachievement and our performance.

So we are in a good position because people like to come to work at our bank. And I think it really has been enhanced now that they know what's going to happen here. We are not going to be sold and we've got a big strong parent.

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

You know, I think, as always, Chris makes a good point and it goes back to the earlier question about light-touch and how is this merger different? I mean, nobody has come to us from Toronto and said cut costs. I mean people -- and you saw it up on the slides -- sure, we're looking at that; we always look at that -- Chris in particular is vigilant on it.

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**Chris Carey** - *City National Bank - EVP and CFO*

We are always cutting costs.

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

And we take costs out.

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**Dave McKay** - *Royal Bank of Canada - CEO*

It's part of our DNA.

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

But at the same time we invest and it's about redeploying some of those savings into areas where we think we can get a better return. So hiring more sales colleagues -- I touched on the kind of very aggressive hiring is going on at the Bank right now, and I think that tells you something. It tells you a lot about how this merger is different, that we are not driving returns based on short-term cost-cutting, but rather prudent cost-cutting, smart expense management, trying to get some synergies and take advantage of some of the capabilities, but at the same time investing for the future.

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**Sohrab Movahedi** - *BMO Capital Markets - Analyst*

Can I just sneak one more in there -- maybe for Janice or for Chris? How many new regulators will RBC have now it's exposed to with this?

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**Janice Fukakusa** - *Royal Bank of Canada - CAO and CFO*

I think that there are no net new regulators, Sohrab, but I think that the regulators have a different focus. So just to put this into perspective -- because the Fed is our overall regulator in the US, because we are subject to the CCAR rules, City National is an OCC-regulated entity.

We also had an OCC-regulated entity or still have a Georgia bank -- which is in Raleigh, I think, but we call it Georgia bank -- don't even ask -- but so we have exposure to a number of different regulators. But the difference, I think, for City National is we have the FedRAMP that wasn't there before.

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**Sohrab Movahedi** - *BMO Capital Markets - Analyst*

Thank you.

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**Dave McKay** - *Royal Bank of Canada - CEO*

Next question -- any more questions?

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**Dean Highmoor** - *Investors Group - Analyst*

It's Dean Highmoor from Investors Group. This is a question for Russell. Lots of talk about your balance sheet growth through 2020. What would be the biggest challenges or hurdles for you guys to hit your 10% CAGR goal targets?

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

You know I think the biggest challenge may or may not turn out to be the state of the US economy. I think when you're in the banking business, as everybody knows, and we focus a lot of attention on that, the economy -- if the economy maintains roughly pace of the United States somewhere around 2% growth rate, hopefully, as Chris pointed out and Janice talked about, we'll get some modest bump in interest rates.

And I think these are very achievable targets. But the biggest challenge would be if we hit an air pocket in the economy. And obviously our growth trajectories will have to be curtailed to respond to damaged economic conditions. But at the moment we don't see that on the horizon, and we are marching forward, recognizing that's always a risk and at some point there will be a slowdown. But so I would say that's the biggest challenge, potentially.

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**Adrian Mitchell** - *Healthcare of Ontario Pension - Analyst*

Adrian Mitchell from Healthcare of Ontario Pension. I have two compensation questions, building on Natalie's question from a moment ago. So first, Russell, when I hear from mid-cap US commercial banks, a number of them really differentiate on how they pay their people. They claim that that's a very significant strategic choice that they've made in terms of an entrepreneurial attitude and unlimited upside in compensation, or almost unlimited upside. That's quite different than the Canadian banks or the larger US banks.

So can you talk about how you are positioned on that strategic dimension? And then I have another compensation question.

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**Russell Goldsmith** - *City National Bank - Chairman and CEO*

Sure. Well, the first thing we did was we assured people -- colleagues -- that we would continue to pay in US currency and that seemed to go over well. Basically, we are a pay-for-performance organization and it varies -- we have multiple compensation plans and structures tailored to different job categories. But we do believe in incenting people to bring in revenue -- if you are talking about people on the line.

We also incentive people who aren't line lenders and bankers in other ways. And at the same time, we tried to have a kind of corporate overlay on an awful lot of our compensation structures, so that people recognize that they have their compensation is affected by the overall performance of the Company. And it varies.

With the extreme people like Chris Carey and myself, Chris knows our incentive compensation is totally dependent on how the Company as a whole performs. And at the other extreme, we have business development officers who have low base but heavily oriented toward incentive compensation more of an eat-what-you-kill strategy.

So it's very complicated -- Chris may want to add something to it since he tracks an awful lot of this -- but it's about trying to appropriately present colleagues with a compensation structure that fits their job category, but keeps in mind credit quality and safety and soundness for them. Obviously, it's affected by some of the new rules proposed out there in terms of clawbacks and things like that. But I'd say it's basically a pay-for-performance structure on the line side, and to a lesser degree, on the staff side.

Chris, if you want to add anything?

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**Chris Carey** - *City National Bank - EVP and CFO*

I would just make a couple of comments. On the sales side, for the most part, the plans are not cap, which probably a lot of banks do that in the United States. Now we have to really do a lot to get to a really high number, but we're willing to pay. If someone really does that, it's good for the shareholders. And any time we have plans, we look at, well, what do we get if we pay this?

What we don't do -- which there are some banks that do -- we don't go with the philosophy of we're going to give you a percentage of the earnings of the business or the book you have. And there's a few banks that are doing that and their models are successful. They kind of AUM the client though. There's less of an institutionalization -- if we want to institutionalize the client, so we are probably -- there's probably an extreme where you are getting a piece of the earnings that the Company makes on it with no cap probably at all.

But we think in those cases, the Bank doesn't necessarily own the client as much. If that person leaves, they tend to take that client with them; versus in our case, it's a good compensation structure. If you really perform as long as you get the credit right -- because we have a credit clawback -- you can lose your whole bonus no matter how well you did, if you don't get the credit right.

So it's worked for us and we have no trouble recruiting people with it. And we don't have to do anything extraordinary to pay them anything unusual to join us. They take typically what our comp program is. There's a lot of them but they all have a similarity.

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**Dave McKay** - *Royal Bank of Canada - CEO*

I'm sorry -- I'm going to ask you to hold your second question because we only have time for one more, and we'll deal with it off-line, if that's okay. So I'm going to open the floor to one more question before we break. If not, I will go ask the final question. Anybody else have a question other than comp? Okay, I guess you get to ask your last comp question.

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**Adrian Mitchell** - *Healthcare of Ontario Pension - Analyst*

I'm not asking the online bank question (laughter) -- but so, Janice's last slide was very nice; nice waterfall slide. How does making it just over that waterfall or just not making it -- how does that change compensation for the four of you on stage?

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**Dave McKay** - *Royal Bank of Canada - CEO*

Good question. Well, certainly the objectives of City National are built into our overall P&L, and that is certainly a part of all senior management's objectives. So as we grow our bank, and as our Board measures our performance, obviously this is part of that growth story that we put together in our one, two, and five-year planning cycles.

So we are committed to driving that waterfall plus the [$340 million] that we put on top of that for the US wealth franchise. And that's why we are so excited about this journey -- that this is a meaningful new growth factor for RBC, and a client franchise that we are very excited to grow. As Russell said, it's significantly outstripping the growth of the rest of the US economy.

The clients are targeted and MSAs are very accessible without a large branch footprint. The clients that Russell serves have a much lower credit risk, as you saw. Russell has been able to drive double-digit growth and maintaining much lower risk profile than the rest of the industry. And that was very attractive to us.

So the dimensions of all this, obviously, we feel confident in growing this type of franchise at this accelerated cadence within our risk appetite, and drive the financial benefits to the shareholders. And as a team, we've signed up for that -- everyone on the stage and the rest of the management team. And that's why we went forward with this opportunity, and why we're very, very excited and very proud of what we can do.

So, thank you for coming today. Thank you for your questions. I hope you are as excited as we are, and I wish you a wonderful weekend. Thanks very much.

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