



# ROYAL BANK OF CANADA THIRD QUARTER RESULTS CONFERENCE CALL THURSDAY AUGUST 28, 2008

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From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. We may make forward-looking statements in these speakers' notes, in other filings with Canadian regulators or the SEC, in reports to shareholders and in other communications. Forward-looking statements include, but are not limited to, statements relating to our medium-term and 2008 objectives, our strategic goals and priorities and the economic and business outlook for us, for each of our business segments and for the Canadian, United States and international economies. Forward-looking statements are typically identified by words such as "believe," "expect," "forecast," "anticipate," "intend," "estimate," "goal," "plan" and "project" and similar expressions of future or conditional verbs such as "will," "may," "should," "could," or "would".

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our objectives, strategic goals and priorities will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors include credit, market, operational, liquidity and funding risks, and other risks discussed in our Q3 2008 Report to Shareholders and our 2007 Report to Shareholders; general business and economic conditions in Canada, the United States and other countries in which we conduct business, including the

impact from the continuing volatility in the U.S. subprime and related markets and lack of liquidity in financial markets; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar, British pound and Euro; the effects of changes in government monetary and other policies; the effects of competition in the markets in which we operate; the impact of changes in laws and regulations; judicial or regulatory judgments and legal proceedings; the accuracy and completeness of information concerning our clients and counterparties; our ability to successfully execute our strategies and to complete and integrate strategic acquisitions and joint ventures successfully; changes in accounting standards, policies and estimates, including changes in our estimates of provisions and allowances; and our ability to attract and retain key employees and executives; changes to our credit ratings; and development and integration of our distribution networks.

We caution that the foregoing list of important factors is not exhaustive and other factors could also adversely affect our results. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

Additional information about these and other factors can be found in our Q3 2008 Report to Shareholders and in our 2007 Report to Shareholders.

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**GORDON M. NIXON, PRESIDENT & CEO**

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We are now three-quarters through this fiscal year and have generated \$3.4 billion in earnings and ROE of 18.7%. We think these are very impressive results, particularly when you consider the performance of financial institutions around the globe and the state of the overall marketplace.

We have performed solidly through difficult market conditions, demonstrating the strength of our people and our organization. We have effectively managed our costs and risks, while taking advantage of market opportunities and continuing to invest for future growth across our diversified businesses.

Most importantly, we are staying very focused on our three strategic goals – to be the undisputed leader in financial services in Canada, to build on our strengths in the U.S., and to be a premier provider of selected financial services globally.

Let me give you some highlights from the quarter.

We earned \$1.3 billion this quarter. This is down \$133 million from a year ago and up \$334 million from the second quarter. Our reported diluted earnings per share is 92 cents. I'd like to highlight that this is after writedowns that had a 20 cent impact. Even with the writedowns, our revenues are at record levels and our underlying earnings are very strong, reflecting the continued success of our diversified businesses.

Canadian Banking had record results, with net income of \$709 million which was up 19% from last year. There were no unusual items this quarter. We grew volumes across all businesses, and generated strong operating leverage through revenue growth and effective cost management. Personal core deposits have grown 15% over last year and home equity lending is up 17%.

We continue to work hard to enhance our clients' experience by opening new branches, adding ATMs and renovating our existing branches.

We are not only earning more business from current clients, we are attracting new clients. Over the last year, we increased our market share in personal core deposits and mortgages by 54 basis points and 19 basis points, respectively.

Consistent with our strategy of expanding services for clients, we recently announced the acquisition of ABN AMRO's Canadian commercial leasing division.

Our Wealth Management results were also strong. We increased fee-based client assets and continued to lead the Canadian mutual fund industry in total net fund sales.

Our results include the contribution from PH&N, which combined with our existing business makes us the largest Canadian mutual fund company with a leading presence in all client segments of the asset management business in Canada. We also continued to grow our global asset management capabilities with the acquisition of a ten per cent interest in O'Shaughnessy Asset Management, a long time partner for RBC, and the acquisition of Access Capital

Strategies, a U.S. independent investment adviser that expands our capabilities into socially responsible investing.

Within our Canadian Wealth Management business, RBC Dominion Securities, Canada's largest full-service wealth manager, continued to recruit experienced and successful investment advisors from our competitors across the country. They are attracted to the merits of RBC's financial strength and stability, our dedicated focus on Wealth Management, as well as the value they can offer their clients through our broad product and service offerings.

We continued to grow our U.S. Wealth Management business with the acquisition of Ferris, Baker Watts bringing our total number of financial consultants to over 2,100.

Our International Wealth Management business continues to grow, as reflected by the steady increase in loans and deposits. Both our U.S. and International Wealth Management businesses have been successful in attracting experienced advisors and other client-facing professionals from our global competitors during this period of volatility.

In our International Banking segment, our U.S. banking operations continue to experience difficulties, primarily in residential builder finance, because of the ongoing stresses in the US housing market and the tough operating environment. That said, the relative size of these issues is manageable in the context of RBC and we have dedicated professionals focused on systematically managing our U.S. banking loan portfolio. Morten will speak more about the U.S. credit environment in his comments.

Performance in other areas of our U.S. banking operations continues to be acceptable and stronger than most of our U.S. peers. We are making good progress on integrating Alabama National, we are working through the current environment, and we are focused on having the best bank possible and good earnings recovery when the credit environment starts to improve.

In our Caribbean banking operations, this quarter we completed the acquisition of RBTT, which has significantly expanded our presence across the Caribbean. RBC is now the 2nd largest bank in the English-speaking Caribbean and 4th largest overall. We will be integrating this acquisition in the months to come, and improving access and choice for our Caribbean clients.

RBC Dexia IS continued to perform well through challenging markets.

Insurance also performed well this quarter and continued to add to our business mix.

Capital Markets delivered a return on equity this quarter of 18% and net income of \$269 million, despite the impact of the writedowns. This is a testament, we believe, to the strength of our diversified businesses.

We are continuing to invest across our Capital Markets businesses and capitalizing on opportunities created by the market environment to win business and recruit top talent. For example, we added significant new talent to our municipal finance practice which we are growing in select, targeted areas, including healthcare and housing, and we also added to our U.S. Leveraged Finance team.

We're continuing to build out our North American energy focused commodities team. Consistent with this, we recently closed the acquisition of Richardson Barr & Co., a leading Houston-based energy advisory firm specializing in acquisitions and divestitures in the exploration and production sector.

Turning to our year-to-date performance versus objectives on slide 7. Our ability to meet our objectives has been impacted by the writedowns, and higher provision for credit losses in U.S. banking.

However, our capital position remains very strong, with a Tier 1 capital ratio of 9.5%, and we expect it to remain well above our objective of over 8% for the balance of 2008 and of course that incorporates the acquisitions.

We are maintaining our quarterly common share dividend at fifty cents in the fourth quarter.

As I've mentioned several times over the past year, RBC has historically pulled away from the competition in times of turmoil. I can tell you that we are certainly seeing this today.

We have market leadership, client focus, a good balance sheet, strong capital ratios and senior debt ratings, and excellent access to funding and we will continue to leverage these strengths to take advantage of market opportunities.

We believe we have the right strategies and the right people in place for our businesses to succeed, and we will continue to work hard to execute against our three goals.

#### **MORTEN FRIIS, CHIEF RISK OFFICER**

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I'll start with a review of the writedowns and then provide an update on our credit portfolio.

As Gord mentioned, we had writedowns in the quarter of \$498 million before tax, or \$263 million after-tax and related compensation adjustments.

As shown on slide 10, these were in Capital Markets, Corporate Support, and International Banking. Full details are provided on pages five through eight of our Report to Shareholders.

Starting with Capital Markets, \$173 million of writedowns related to the structured credit transaction that we hedged with MBIA. This amount reflected declines in the fair value of credit default swaps with MBIA, expected recovery rates on the underlying assets and other parameter inputs. A further \$97 million related to declines in the fair value of subprime CDOs of ABS and other subprime RMBS.

Unrelated to U.S. subprime, the remaining writedowns in Capital Markets totalled \$72 million and related to auction rate securities, our U.S. municipal GIC business, U.S. commercial mortgage-backed securities and our U.S. Insurance and Pension solutions business. These are all areas that I have discussed in previous quarters and are covered in the Report to Shareholders.

Turning to Corporate Support, \$88 million of writedowns related to available-for-sale holdings of Alt-A and U.S. subprime RMBS that we determined to be other than temporarily impaired, and \$15 million related to declines in the fair value of Alt-A RMBS in trading portfolios.

In International Banking, we had writedowns of \$39 million on preferred stock of Freddie Mac and Fannie Mae held in our U.S. banking business that we deemed impaired due to recent events. We also had a 14 million dollar writedown on available-for-sale holdings of Alt-A RMBS that we determined to be other than temporarily impaired.

Turning to slide 11, two of the largest days of net trading losses and the single day of large gains at the end of the quarter were primarily due to month-end valuation adjustments. The remaining two large net trading loss days this quarter were largely attributable to significant volatility in the equity and credit markets and did not exceed global VaR for each respective day.

Turning to credit, pages 29 to 30 of our Report to Shareholders discuss credit quality and include a breakdown of the loan portfolio in our U.S. banking operations.

Over 80% of our loan book is based in Canada and credit quality in Canada remains stable. Increases in Canadian gross impaired loans and provisions for credit losses mostly relate to portfolio growth. You can see from slides 12 and 13 that GIL and PCL ratios in Canada continue to be low and comparable to prior quarters.

About 6% of our loan book is international. The increase in gross impaired loans that you see from the second quarter is largely due to our June 2008 acquisition of RBTT.

Finally, approximately 13% of our loan book is based in the U.S. where, as you know, credit quality has been deteriorating. As shown on slides 12 and 13, gross impaired loans and provisions for credit losses in the U.S. have increased compared to last quarter.

The credit issues are primarily in residential builder finance, though our commercial banking portfolio is also showing deterioration in some areas. In the retail portfolio, home equity lending and lot loans have also weakened compared to last quarter.

U.S. residential builder finance loans consist of our ongoing builder finance business and RBC Real Estate Finance Inc. (REFI), a wholly-owned subsidiary set up to manage the wind down of builder finance loans from the out-of footprint states as well as certain other impaired U.S. residential builder finance loans from the in-footprint portfolio. Builder finance loans account for over half of the PCL in the U.S. this quarter.

To date, we have not seen wide spread problems in our general U.S. commercial and business banking portfolio. However, we have seen higher impaired loans and PCL in areas related to supplying or providing services to the U.S. housing market, such as building supplies.

While our U.S. retail portfolio experienced higher impaired loans and PCL, particularly in home equity and lot loans, we believe the portfolio is generally of good quality. In the retail portfolio, we have very little unsecured lending or credit cards and no subprime origination programs.

To conclude, while we do have some challenges in our U.S. loan portfolios, this represents a relatively small portion of our overall loan book. The remainder of our loan book continues to perform very well.

At this point, I'll turn the call over to Janice Fukakusa to discuss our third quarter results.

#### **JANICE FUKAKUSA, CHIEF FINANCIAL OFFICER**

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Slide 16 provides an overview of our quarterly performance. We had strong results in Canadian Banking, Wealth Management, Insurance and certain businesses in Capital Markets. Net income was down \$133 million from last year reflecting the writedowns, and higher PCL primarily in our U.S. banking business that Morten highlighted earlier.

Non-interest expense was up 3% from a year ago reflecting higher costs in support of business growth, acquisitions, and infrastructure investments.

Stepping back a little here, we constantly evaluate internally how we are doing in terms of expense management. When we do this, we look at expenses net of variable compensation. Looking over the last several quarters in this context, we have been able to carefully manage our expense growth rate while continuing to support enterprise wide business growth.

The notion of revenue growth is part of all cost management discussions at RBC. We have added many points of access and advisors, allowing clients to get advice when and where they need it while continuing to become more cost efficient.

Turning to slide 17, our capital position is strong. Our Tier 1 capital ratio this quarter was 9.5% under Basel II. This was unchanged from last quarter even with the acquisitions of PH&N and RBTT which were partly funded with equity. Our total capital ratio was 11.7% and our assets-to-capital ratio was 19.4 times.

I'll now review the quarterly performance of our five business segments.

Starting with Canadian Banking on slide 19, net income was up 19% over last year on strong volume growth across all our businesses. Operating leverage was 8%, with revenue up 5% and NIE down 3% through effective cost management.

On slide 20 you will see net interest margin decreased over the year and the quarter. This reflects our clients' continued preference for lower-spread products such as home equity and high interest savings accounts as well as the lower interest rate environment. Lower credit card spreads due to higher volume of low-rate offers also contributed to the decrease from last year. However, due to excellent volume growth, we grew net interest income in Canadian Banking by 6% over last year.

Looking at Wealth Management on Slide 22, net income was up 5% or \$9 million from a year ago. We had higher fee-based revenue, including the contribution from our PH&N acquisition, and higher loan and deposit balances in our international wealth management business.

Transaction volumes across our full service brokerage businesses were lower due to weak market conditions.

Non-interest expense increased 1% from last year mainly in support of business growth including the PH&N and FBW acquisitions.

Moving on to Insurance on slide 24, earnings increased 33% or \$34 million over last year. This is largely due to favourable actuarial adjustments reflecting management actions and assumption changes, improved Universal Life experience and business growth, mostly in our reinsurance business.

Total revenue was up 45% over last year primarily reflecting the mark-to-market impact on investments backing our life and health policyholder liabilities, which is largely offset in policyholder benefits and claims.

Turning to International Banking on slide 26. We had a net loss of \$16 million, which compares to net income of \$87 million last year. This is mainly due to higher provisions for credit losses reflecting higher impaired loans in our U.S. residential builder finance, commercial and retail loan portfolios and a writedown of \$53 million (or \$33 million after-tax) on the investment portfolio in our U.S. banking business. This was partially offset by contributions from the ANB and RBTT acquisitions and business growth at RBC Dexia IS.

Non-interest expense was up 25% from the prior year, reflecting the ANB and RBTT acquisitions, and higher staff costs at RBC Dexia IS in support of business growth.

Turning to Capital Markets on slide 28, net income was down 25% from last year largely reflecting the writedowns that Gord and Morten discussed.

Notwithstanding the writedowns, we had strong results in some trading businesses, including fixed income, equity derivatives and foreign exchange where we were able to take advantage of the market volatility and interest rate environment. We also had higher gains on credit derivative contracts used to economically hedge our corporate lending portfolio.

Non-interest expense increased 3% over last year, which reflects infrastructure investments in certain businesses.

At this point, I'll turn the call over to the operator to begin questions and answers.