ROYAL BANK OF CANADA
SECOND QUARTER RESULTS
CONFERENCE CALL
THURSDAY, MAY 25, 2017

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Additional information about these and other factors can be found in the Risk management and the Overview of other risks sections in our 2016 Annual Report and in the Risk management section of our Q2/2017 Report to Shareholders.

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DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Good morning everyone and thanks for joining us today.

This morning, we reported earnings of $2.8 billion, up 9% from last year, and diluted EPS was up 11%.

We had strong results across our core businesses:

Canadian Banking had a good quarter, with solid volume trends particularly in business loans and deposits, as well as cards. We demonstrated cost discipline, even as we invested more in technology. I’m also proud that we were recently named “Global Retail Bank of the Year” for the third time by Retail Banker International.

The impact of our long-term focus on client relationships and favourable markets were factors driving double digit growth in Capital Markets, Wealth Management, and Investor & Treasury Services this quarter.

In Capital Markets, we achieved market share gains in the U.S. and our investment banking fees also benefited from strong corporate activity. This helped us break through the top 10 globally, ranking ninth by investment banking fees according to Thomson Reuters.

In Wealth Management, our results were driven by strong performance in both Canada and the U.S. In Canada, our clients continued to choose RBC more than any other institution with their investments, and in the U.S., we had another great quarter with double digit growth in both loans and deposits at City National.

Investor & Treasury Services continued to show strong earnings growth and cost control, while investing heavily in technology for our clients.
Our Insurance business had a stable quarter, although earnings were down due to the impact of the sale of our Home & Auto insurance manufacturing business, and last year’s tax recovery.

On credit, all of our credit trends were relatively stable.

And we remain well-capitalized with a CET1 ratio of 10.6%.

Our strong capital position enabled us to buy back over 29 million common shares in the second quarter. And since the closing of City National, we have bought back over 80% of the shares we used to fund the acquisition.

We continue to target a CET1 level of 10.5% plus, which provides us with the flexibility to invest in our businesses for long-term growth, while also returning capital to our shareholders.

Before Rod expands on our financial results, let me share my perspective on a few key areas.

First, on Canadian housing:

We continue to monitor a number of factors very closely, particularly the significant price appreciation in Toronto and Vancouver.

We support the prudent approach taken by all levels of government and regulators over the past several years, in order to maintain the long-term health of the housing sector and the economy at large.

Housing affordability is paramount for Canadians, and as I mentioned at our annual meeting in April, it will require the cooperation of all parties – governments, developers, realtors, banks and others – to ensure that all Canadians have access to homes and that their related debt burden doesn’t hinder other spending or the broader economy.

We are encouraged by recent data in the Toronto market for April. New listings were up 34% from the prior year which suggests some potential easing of the supply/demand constraint that contributed to rising home prices.

Overall, we believe the housing market will continue to be supported by steady population growth, which is partially driven by immigration, household income gains, and low interest rates.

While we recognize some of the concerns in the market, we remain confident in the Canadian economy, in the strength of our mortgage book, and in our prudent credit adjudication processes; our loan portfolio is well diversified and our clients’ credit profiles are strong.

Second, on technology:

Innovation is core to RBC. We have a tremendous amount of work underway to ensure we are leveraging our scale to be truly a digitally-enabled relationship bank.

We’re changing how we work, collaborating with a diverse set of partners to explore new technologies, with a focus on artificial intelligence and machine learning.

We’re investing in the wider Canadian digital ecosystem to drive the future prosperity of the country, as shown by our recently-announced partnerships with OneEleven and C100.

Within our Canadian Banking business today, almost 85% of our service transactions are performed in self-serve channels.
Our clients are accelerating their migration to digital platforms. We currently have 3 million active users of our mobile app – that’s over 10% of the Canadian adult population.

We’re responding to this evolving environment by making things as convenient as possible for our customers. For example:

We recently launched a pilot of “MyAdvisor”, our on-line wealth advice platform, and the responses have been very positive so far.

MyAdvisor combines the convenience of digital access with a human connection, by using live audio to connect clients in real time with financial advisors for personalized advice.

Another example is our proprietary RBC Rewards program.

Our rewards program is a place where we engage with our clients to provide them with choice and real value, beyond points, while providing an exceptional experience.

Last month, we introduced “RBC Offers” to make it even easier for customers to instantly access more ways to earn bonus points and get cash savings.

We added great partners to the program, including Saks Fifth Avenue, Fairmont Hotels, The Keg and Indigo. And we will be adding more in the coming months.

Finally, while providing an exceptional client experience through digitization is important, we can’t compromise on safety or security.

Recently, there have been a number of reports highlighting major breaches around customer data security globally.

I can confirm that RBC has not been affected by these cyber-attacks.

We strive to ensure RBC clients are protected and have access to our services without interruption.

We have also built a cyber security ecosystem through strategic external partnerships, including law enforcement agencies.

Security is critical to both our business and our clients, and will always be a top priority.

Overall, we had another great quarter and a record first half, with year-to-date earnings of $5.8 billion and an ROE of 17.7%.

Our results underscore the strength of our diversified model. We are focused on evolving how we work and accelerating how we do business with our clients. Going forward, this positions us well to generate stable, long term earnings growth.

And with that, I’ll turn the call over to Rod.
Thanks Dave and good morning everyone.

Starting on slide 5, we achieved strong EPS growth of 11% while limiting balance sheet growth to 5% and RWA growth to 8% demonstrating efficient deployment of our financial resources and capital. We reported positive operating leverage across all segments, with the exception of Capital Markets.

Our total operating leverage was impacted by higher legal and severance costs of $60 million over the prior year.

Operating leverage in Capital Markets was negative ~2% and reflected higher regulatory compliance costs as well as the change to the bonus deferral policy we implemented in 2016.

Adjusting for the higher legal and severance costs, as well as the impact of the policy change in Capital Markets\(^1\), our operating leverage would have been approximately 1.5%.

Turning to slide 6. Let me take a moment to talk about the key indicators of our financial strength. These metrics are at the core of how we manage our business, which is why they are part of our medium-term objectives.

First, our Common Equity Tier 1 ratio remains strong although it came down this quarter to 10.6%. We had strong internal capital generation and we supported organic business RWA growth. We also executed on our share buyback program.

The increase in RWA was also explained by an update to our corporate and business lending risk parameters resulting from our internal model reviews. We are continuously assessing our parameters and don’t expect any significant changes in the short-term.

As Dave mentioned, we are very comfortable with our capital position in the 10.5% plus range. As we look forward, we will continue to prudently balance our capital, earnings growth and Return on Equity to benefit our stakeholders.

Second, we continued our commitment of returning capital to shareholders. Our net payout ratio this quarter was over 100%, driven in part by our share repurchases. We also renewed our NCIB in March for 30 million shares, and we are now half-way through that program. We don’t expect our net payout ratio to reach these levels for the balance of the year and, we expect to grow our CET1 ratio, absent any surprises or major changes to the pension discount rate.

And third, we have been able to deliver all of this while growing our ROE to 17.2%, up 100 basis points from last year.

Now let me turn to the quarterly performance of our business segments, starting on slide 7.

Personal & Commercial Banking earnings were up 5% from last year.

Canadian Banking net income of $1.3 billion was up 6% from a year ago.

In the second quarter, the combination of good volume growth and stable spreads translated to solid revenue growth.

\(^1\) Operating leverage adjusting for higher legal and severance costs and the impact of the policy change in Capital Markets is a non-GAAP measure and may not be comparable to similar measures disclosed by other financial institutions. For more information, please refer to the Notes to Users on page 9.
Client volume was up 7% year over year, driven by loans up 5% and deposits up by 9%. We continued to win with our commercial clients, with business deposits up 16% and business loans up 10% from the prior year.

We achieved these results despite the low interest rate environment, with NIM up one basis point from the prior quarter.

Our fee-based businesses performed well, up 6% compared to last year, which included a strong performance in mutual funds revenue, which was up 13%.

We continue to manage our costs while investing in our business for growth. Operating leverage in Canadian Banking was positive 0.7%, while our efficiency ratio was strong at 42.1%.

Year-to-date operating leverage was a reported 4.9%. Adjusting for the gain last quarter\(^2\), we were at 1.8% – and we continue to expect to be within the one to two% range for the full year.

Turning to Wealth Management on slide 8. Earnings of $431 million were up 12% from last year.

With its top quartile investment performance, Global Asset Management continued to attract investments as the market leader in Canada, with a market share of 32% amongst banks.

In our Canadian Wealth Management business, we have been working across segments to leverage our distribution, brand and people across high net worth channels. Improved market conditions also helped drive asset growth and higher client activity.

Meanwhile in our second home market, City National continued to perform well. In U.S. dollars, City National reported net income of $57 million, up 12% from the prior year.

Results reflect continued momentum in our loan book, with growth up 15% from the prior year, and improved NIM in our core portfolio.

City National NIM was 2.81%, up 15 basis points sequentially reflecting the impact of the two recent rate hikes as well as asset mix.

We achieved these results while incurring higher costs to support business growth, including the addition of 380 net new colleagues, as well as higher regulatory costs, including CCAR compliance.

Moving to Insurance on slide 9, we had net income of $166 million, down 6% from the prior year.

Results reflected solid underlying performance including higher investment-related gains and improved claims experience. However, earnings were more than offset by the impact of a tax recovery in the prior year and the impact from the sale of our home and auto insurance manufacturing business, which was approximately $15 million impact this quarter.

Turning to slide 10. Investor & Treasury Services delivered another strong quarter with net income of $193 million, up 39% compared to last year. Results were primarily driven by higher funding and liquidity earnings as the business was well positioned to benefit from volatility in interest and foreign exchange rates and good cost control.

Turning to Capital Markets on slide 11.

\(^2\) Excluding our share of a gain related to the sale of the U.S. operations of Moneris Solutions Corporation (Moneris gain on sale) which was $212MM before- and after-tax last quarter. Results excluding this gain are non-GAAP measures. For more information, please refer to the Notes to Users on page 9.
May 25, 2017 / 7:30AM EDT, RBC Second Quarter 2017 Results Conference Call

For the past few quarters, markets have been driven by major political events and low sustained commodity prices. This quarter, our business performed well as client confidence grew in more stable markets.

Against this backdrop, Capital Markets reported net income of $668 million, up 15% from last year. More clients did more business with us, which drove strong investment banking fees, increased corporate lending and higher Global Markets earnings. For example, we acted as financial advisor to Cenovus Energy in its $17.7 billion acquisition of ConocoPhillips. We were also a key partner in their bridge facility and we supported them again in their common share offering.

As we’ve mentioned before, earnings last year were impacted by higher PCL as our clients navigated the low oil price environment. We continue to see improvements in this portfolio which also contributed to our strong earnings growth this quarter.

We are focused on carrying the momentum in our Investment Bank into the second half of 2017. We also remain cautious in our outlook on the trading side amidst a general market slowdown as political tensions and uncertainty in U.S. monetary and tax policies persist.

In conclusion, we are very happy with our results, especially in the context of the significant investments we are making to ensure RBC can navigate the changing needs of our customers.

With that, I will turn it over to Mark.

MARK HUGHES, CHIEF RISK OFFICER

Thank you Rod and good morning.

Turning to slide 13. Our credit performance was stable this quarter with total provisions for credit losses of $302 million, up $8 million or 3% from last quarter. Our PCL ratio of 23 basis points increased a modest 1 basis point over the same period.

Our year-to-date PCL ratio on impaired loans of 22 basis points improved by 9 basis points year over year reflecting higher oil prices and positive results from the oil & gas sector.

Let me discuss the performance of each segment on slide 14.

In Personal & Commercial Banking, provisions of $262 million increased by $13 million from last quarter. Canadian Banking provisions of $256 million, increased by $6 million quarter over quarter, reflecting higher losses in commercial lending and higher credit card write-offs, partially offset by lower provisions in personal lending.

Caribbean and U.S. Banking provisions were up $7 million from last quarter largely due to lower recoveries in our Caribbean personal lending portfolio.

Wealth Management provisions of $15 million increased by $2 million sequentially, mainly reflecting a modest increase in provisions at City National.

Capital Markets provisions of $24 million decreased by $8 million from last quarter as lower PCL in the real estate sector was partially offset by lower oil and gas recoveries.

Turning to slide 15. Gross impaired loans of $3.2 billion were down $310 million or 9% from last quarter. Year-to-date, gross impaired loans were down $654 million or 17%.
Our gross impaired loan ratio of 59 basis points was down 7 basis points from the prior quarter.

In Capital Markets, gross impaired loans decreased by $412 million from last quarter as we continue to see a higher than average number of accounts return to performing status in the oil & gas sector.

In Wealth Management, gross impaired loans increased $96 million mainly due to one large International account and the impact of foreign exchange translation.

Personal & Commercial Banking gross impaired loans increased $6 million from last quarter as higher impaired loans in Caribbean banking was partially offset by lower impaired loans in Canadian Banking

Let’s now turn to our Canadian retail exposure on slide 16.

With 86% of our loans secured and no participation in the subprime auto lending or credit cards, our retail portfolio is relatively conservative.

The increase in credit card write-offs largely reflected seasonal trends following a similar seasonal uptick in delinquencies last quarter.

Our 90-day plus Canadian retail delinquencies remained largely stable quarter over quarter.

We discuss the performance of our mortgage portfolio on slide 17.

This past quarter, we acquired a higher amount of portfolio insurance as part of our ongoing balance sheet management activities.

Insured mortgages now represent 48% of our mortgage portfolio, which remains heavily weighted in Ontario and B.C. In both provinces, our 90-day plus delinquency rates remain low well below national level of 22 basis points, which in itself it the lowest level in recent years.

Given elevated house price appreciation over the past year, we continue to closely monitor new originations and the underlying debt serviceability of the borrower.

We remain comfortable with our client’s ability to repay based upon the following:

The quality of our mortgage originations remains strong, with average FICO scores similar to our existing portfolio.

LTVs at origination are lower for higher levels of property prices in the GTA and GVA.

We employ a risk-based approach to property valuation, including employing more extensive appraisals for higher-value properties.

Approximately one third of our clients are on accelerated repayment plans.

And finally, unemployment rates are low nationally.

Overall, I am pleased with the performance of our lending portfolios this quarter. Should current conditions persist, I expect PCL to be around 25 basis points for the full year, subject to quarterly volatility.

Turning to market risk on slide 18.

Notwithstanding ongoing geopolitical risks and related market volatility, our average VaR remained relatively flat at $25 million and we had zero days of trading losses this quarter.
With that we’ll open the lines for Q&A, and over to you operator.

Note to users:

We use a variety of financial measures to evaluate our performance. In addition to generally accepted accounting principles (GAAP) prescribed measures, we use certain key performance and non-GAAP measures we believe provide useful information to investors regarding our financial condition and result of operations. Readers are cautioned that key performance measures, such as ROE and non-GAAP measures, including results excluding our share of a gain related to the sale of the U.S. operations of Moneris Solutions Corporation (Moneris gain on sale), our merchant card processing joint venture with the Bank of Montreal, to Vantiv Inc. (Vantiv) and operating leverage adjusting for higher legal and severance costs and the impact of the policy change in Capital Markets do not have any standardized meanings prescribed by GAAP, and therefore are unlikely to be comparable to similar measures disclosed by other financial institutions.

Additional information about our ROE and non-GAAP measures can be found under the “Key performance and non-GAAP measures” sections of our Q2/2017 Report to Shareholders and our 2016 Annual Report.

Definitions can be found under the “Glossary” sections in our Q2/2017 Supplementary Financial Information and our 2016 Annual Report.