# ROYAL BANK OF CANADA THIRD QUARTER RESULTS CONFERENCE CALL WEDNESDAY, AUGUST 21, 2019

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## DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Thanks, Nadine, and good morning, everyone. Thank you for joining us this morning.

Today, we reported record quarterly earnings of $3.3 billion largely driven by strong results in our retail and wealth management businesses. Our market-related businesses also performed well considering challenging market conditions during the quarter.

We continue to maintain a premium ROE of 16.7% and a very strong capital ratio of 11.9%, giving us flexibility to fund strong organic growth and return capital to shareholders. I am also pleased to announce a $0.03 increase to our dividend, bringing our quarterly dividend to $1.05 per share.

Before moving to our results, I want to touch on the macro environment. Rising geopolitical risks and trade tensions are having an impact on both business and market sentiment worldwide. This uncertainty is manifesting itself in downward trends in global interest rates. While there are risks to the outlook, current economic conditions in our core North American geographies remain solid, with unemployment near multi-decade lows and a continued resilience in the Canadian manufacturing sector.

Also, a recent report finds that Canada admits the largest number of skilled immigrants in the OECD, a contributing factor to both economic growth and household formation. On Canadian housing, we are seeing more balanced supply-demand conditions as policyholders appear to have engineered a soft landing. We are seeing positive developments in key markets including a return to growth in Toronto and a healthy Montreal market.

As the largest of the Big 5 Canadian banks in Québec, we are participating in resilient growth of the economy, leveraged by the collaboration of our employees across the province and all our business segments. Furthermore, Canada has become an attractive technology hub, attracting top talent and investment dollars, including demand for office space. We are seeing large corporations opening their global A.I. headquarters in Canadian cities. And a recent study ranked four Canadian cities in the Top 20 for tech talent in North America. So against this backdrop, I want to update you on our business segment performance.

Canadian Banking reported record earnings this quarter underpinned by strong client-driven volume and revenue growth. At our Investor Day last year, we shared our story of 'how does a market leader grow?' For RBC, that is to create greater value for our clients. Not only have we grown, but we have accelerated our growth. We are leveraging our scale to grow our market share and thrive in this period of secular change. Over the last few years we have made significant investments in our digital capabilities, including MyAdvisor and NOMI. Our active mobile user base increased 17% year-over-year to 4.3 million this quarter. And we have added over one million active mobile users over the past 2 years. We also continued to build out our sales capacity, adding over 300 client-facing experts in our retail bank over the last year, including mortgage specialists and investment advisors. Our consistent volume growth reflects Canadian Banking's franchise strength. Since the end of 2016, we have added combined loan and deposit account balances of over $100 billion.

With RBC Ventures, we continue to move beyond banking. As part of this strategy, we recently acquired SmartReno, a platform to enhance the home renovation experience of Canadians. We now have 17 ventures in market, in areas ranging from home search to supporting newcomers to Canada. We also recently launched Ampli, a new loyalty platform, with over 20 partner brands, and while early days, we expect this and other ventures to further differentiate RBC, strengthen partner relationships, and drive further client acquisition for the bank.

We have seen strong growth in the number of registered RBC Ventures users, and similar to last year, we will provide an update to our Investor Day targets in our upcoming Q4 disclosures.

Our growth in credit cards remains strong and above the industry average. This is a testament to the value our clients get from our unique offerings. We are also seeing increased momentum in our mortgage portfolio, benefiting from additional sales capacity and new digital tools. We remain prudent on our new mortgage underwriting, with FICO scores in line with our existing portfolio.

In Business Banking, our strong performance has been driven by a focus on high-growth, high-return sectors and regions, while operating within a consistent risk framework. Our success has been underpinned by multi-year investments in top talent, cash management solutions, and technology. We are excited about the potential of new capabilities for our commercial clients, including RBC Go Digital. This new initiative with Microsoft provides a suite of turn-key technology and financing solutions to accelerate our clients' digital transformation. Another part of our capital deployment strategy has been our journey to expand our portfolio of digitally-enabled capabilities to reimagine the role we play in our clients' lives. This quarter we acquired WayPay, a FinTech startup, to help our Business Banking clients' save time and money with a secure and simple solution for their accounts payables process.

Turning to Wealth Management, where we also reported record earnings this quarter. We generated over $3 billion of revenue for the first time in this segment reflecting both market appreciation and net sales. Our clients continue to choose our broad range of products and advisory services in this challenging market environment. Our leading distribution network and strong performance versus industry benchmarks has resulted in 50 bps of Canadian Retail market share gains over the last 12 months. This is a significant accomplishment in an industry with $1.6 trillion in AUM. In fact, RBC Global Asset Management has added over $10 billion in long-term Canadian Retail net sales since the end of 2017. The rest of the industry experienced aggregate net redemptions over the same time period.

We have also continued to invest in our industry-leading Canadian Wealth Management platform, and we expect to continue to outgrow the market having added close to 30 new competitive hires this year alone. Our U.S. Wealth Management business also generated record earnings this quarter, as we continued to invest in both our U.S. Private Client Group and City National businesses. We have scaled our core businesses organically with both U.S. Wealth AUM and CNB loan growth up double-digits from last year. We expect strong growth to continue as we add client-facing talent, including seasoned Financial Advisors and sales colleagues. As part of this, we expanded our commitment to serving the financial needs of our City National clients by adding to our sales teams across geographies. We also recently enhanced our services to entertainment clients with the acquisition of FilmTrack, a leader in intellectual property rights management. This builds upon our acquisition of Exactuals.

Our Insurance business delivered strong results, highlighting the importance of our diversified business model. This segment continues to generate high-ROE earnings with a strong and diverse client base that has developed long-term relationships with our other Retail franchises.

Investor & Treasury Services had a challenging quarter impacted by difficult market conditions. Despite secular industry headwinds, we are increasingly focused on markets and products where we can provide the most value to our clients. We will continue to find opportunities to drive efficiencies in this segment.

On to Capital Markets. The segment generated solid earnings of $653 million despite a challenging market backdrop that saw lower client activity in global equities. Also, a reduction in global fee pools impacted investment banking fees. In contrast, fixed income trading revenue was solid across all regions. We are also driving increased collaboration across the Capital Markets businesses. For example, RBC Capital Markets acted as M&A advisor and provided committed debt funding to Sinclair Broadcast Group in support of its announced $10 billion acquisition of the Fox Regional Sports Networks.

Overall, we delivered a solid quarter, and I am proud of the scale and momentum we have built in our core retail businesses of Canadian Banking, Wealth Management and Insurance. We are well positioned to continue providing value-added advice and service to our existing clients, while attracting new clients with our market-leading capabilities across our segments. We are committed to balancing our investments to continue creating value for our clients and shareholders. Yet we will not lose sight of our focus on disciplined cost management and prudent growth.

Before I end my remarks, I would like to recognize Doug McGregor, as we announced this morning that Doug decided to retire next year after 37 years at the bank. There will be more opportunities to recognize Doug, but I wanted to take this moment today to sincerely thank him for his immense contribution to RBC. As our investors know very well, Doug has played a pivotal role in growing RBC Capital Markets from being the Canadian market leader to also being a top 10 global investment bank. And under his leadership, our client relationships strengthened, our competitive positioning has improved, and we have attracted and retained some of the best talent in the industry. And most importantly, Doug has led with strong judgment and integrity.

I am pleased that Derek Neldner will assume the role of Group Head Capital Markets on November 1, and he will join our Group Executive. Derek is currently Global Head of Investment banking and has been with RBC Capital Markets for over 20 years. He brings deep experience and a strong commitment to our clients, which positions them well to lead this important business.

In addition, Mike has been appointed President of RBC Capital Markets effective November 1. Mike will report to Derek Neldner and he will continue to lead the Global Markets business and Treasury Management Services operations. I am also pleased that Doug Guzman, Group Head Wealth Management and Insurance, will assume leadership for Investor and Treasury Services effective November 1. Francis Jackson, CEO of Investor Services will report to Doug.

With that, I'll pass it over to Rod.

### ROD BOLGER, CHIEF FINANCIAL OFFICER

Thanks Dave, and good morning everyone.

Starting on slide 5, we had strong third quarter earnings of $3.3 billion, up 5% from last year. Diluted EPS of $2.22 was up 6% year-over-year. Before I walk you through the segment results, I want to update you on our progress relative to the cost management guidance we provided last quarter. Given lower interest rates and the expectation of interest rate cuts, we are prudently focused on driving efficiencies and managing costs.

This quarter, expense growth slowed to 2.3% year-over-year, compared to 6.6% in the first half of the year. About three quarters of our expense growth was from investments in transformation as well as front office and sales force staff so we remain well positioned to continue to increase market share. We continue to drive efficiencies which create opportunities to invest in growth. We reaffirm our guidance from last quarter and expect lower expense growth in the second half of the year.

Now turning to slide 6, our CET1 ratio improved 10 bps to 11.9% as internal capital generation was partly offset by organic RWA growth, the unfavorable impact of pension and other post-employment benefit obligations and share buybacks. In addition to our dividend increase, we bought back 1.9 million shares this quarter, for a total capital return of $1.7 billion or nearly 50% of earnings. Going forward, we expect the combined impact of IFRS 16 adoption, securitization and counterparty credit risk will impact our CET1 ratio by approximately 25 to 30 bps in Q1/2020 which we expect to fully absorb through capital generation. And we remain well capitalized to absorb the incremental Domestic Stability Buffer increase of 25 bps, which comes into effect October 31, 2019.

Now moving to our business segments on slide 7. Personal and Commercial Banking reported earnings of $1.7 billion. Canadian Banking net income of $1.6 billion was up 8% from a year ago. This quarter we saw strong volume growth across many of our products. Residential mortgages grew 6% year-over-year as we continued to gain market share through increased originations and client retention. Business loan growth was up 10% year-over-year. Growth has been across most segments and sectors, with notable momentum in small and mid-market commercial businesses. As Dave spoke to earlier, deposit growth was also strong this quarter, up 10% across both business and personal accounts. In particular, we saw an increase of 16% in Personal GIC's and business deposit growth of 9% as clients shifted towards deposits in response to macro-economic uncertainty. Our net interest margin of 2.80% was flat to last quarter. Going forward, we expect NIM to potentially drop as much as 4 to 5 bps over the next year if the current interest rate outlook and market pricing holds. Expenses were up 5% year-over-year due to higher staff-related costs, as we added client-facing employees and increased our investments in technology. Operating leverage in

Canadian Banking was 1.7% this quarter and 1.1% year-to-date. Adjusting for last year's gain related to the reorganization of Interac, year-to-date operating leverage for Canadian Banking was 1.4%[1].

Turning to slide 8, Wealth Management reported record earnings of $639 million, up 11% year-over-year. Global Asset Management revenues were up 12% year-over-year. This was due to higher fee-based revenue on higher AUM, driven by market appreciation and net sales. Excluding the prior year's loss on an investment in an international asset management joint venture, revenues were up 6%[2]. Canadian Wealth Management revenue was up 8% year-over-year as a result of higher fee-based revenue driven by higher fee-based assets from solid net sales from referrals, strategic hiring and market growth. Our Non-U.S. Wealth Management efficiency ratio of 66.3% was down from 68.5% in Q3/18 improving 220 bps or 90 bps[2], if you exclude the previously mentioned impact of prior year's loss on an investment in GAM.

In U.S. Wealth Management, revenue was up 6% year-over-year in U.S. dollars driven by strong 15% loan growth at City National and higher fee-based revenue in our U.S. Private Client Group. City National continued to generate strong growth in net interest income, up 14% year over year, with pre-provision, pre-tax earnings[3] up 15%[4] excluding last year's gain related to the sale of a mutual fund product and its associated team. Deposits were up 6% year-over-year, and we're confident that our wide range of deposit initiatives will enable us to support the strong and prudent loan growth at City National. Last quarter we stated that we expected NIM to be range bound, adjusting for an 8 bps gain from recoveries on legacy loans this quarter. Given that U.S. 10-year bond yields declined a material 95 bps since our last call and the Fed's recent 25 bps cut, CNB NIM is likely to tick lower. However, we expect to continue to drive strong net interest income, driven by double-digit loan growth.

Moving onto Insurance on slide 9, net income of $204 million was up 29% from last year, reflecting increased favourable investment related experience and new Longevity Reinsurance contracts. This was partially offset by higher disability and life retrocession claims costs and favourable reinsurance contract renegotiations in the prior year.

Moving to Investor & Treasury Services on slide 10. Earnings of $118 million in this segment were down 24% year-over-year. I&TS was impacted by lower client deposit margins driven by spread tightening. We saw reduced client activity in our asset services business and lower funding and liquidity revenue driven by lower realized gains from the sale of securities compared to the prior year as well as declining rates. We continue

[1] Q1/2018 results included a gain of $27MM after-tax ($31MM before-tax) related to the reorganization of Interac. Results excluding this gain are non-GAAP measures. For more information see Note to Users on page 10.

[2] Q3/2018 results included a loss of $24MM after-tax ($27MM before-tax) related to an investment in an international asset management joint venture. Results excluding this loss are non-GAAP measures. For more information, see Note to Users on page 10.

[3] Pre-provision, pre-tax earnings is the difference between revenue and non-interest expenses. This is a non-GAAP measure. For more information see Note to Users on page 10.

[4] Q3/2018 results included a gain of US$20MM after-tax (US$30MM before-tax) related to the sale of a mutual fund product and transfer of its associated team. Results excluding this gain are non-GAAP measures. For more information see Note to Users on page 10.

to actively manage our cost base. As a result of these efforts, costs decreased 1% year-over-year and we will continue to assess and act on efficiency opportunities.

On slide 11, Capital Markets earnings of $653 million were down 6% year-over-year as industry wide headwinds and lower client activity impacted revenues. Corporate & Investment Banking revenues were down primarily due to lower loan syndication activity and M&A across the industry. Despite headwinds of a declining fee pools, RBC rose to 10th in the global league tables for the fiscal year to date. Global Markets revenue was down 4% year-over-year amidst a challenging market backdrop for both equities and fixed income trading. As you may recall in Q3 last year, equities had a strong quarter, in particular with one outsized trade. On the other hand, credit trading was higher this quarter on positive mark-to-market on investment grade as well as credit spreads tightened. Looking ahead, our investment banking pipeline remains strong for the remainder of the year.

In Conclusion, we are pleased with our strong results this quarter driven by growth in our retail businesses and our market dependent businesses despite industry headwinds.

With that, I'll now turn the call over to Graeme.

## GRAEME HEPWORTH, CHIEF RISK OFFICER

Thank you Rod and good morning everyone.

Starting on slide 13, our Total PCL on Loans was $429 million this quarter, equivalent to 27 bps, and was comprised of $399 million in provisions on impaired loans and $30 million in provisions on performing loans. PCL on impaired loans decreased by $36 million or 4 bps from last quarter, mainly due to lower provisions in Canadian Banking. PCL on performing loans was $30 million this quarter driven mainly by portfolio growth in retail, offset by seasonal credit quality improvements in the cards portfolio. We did not materially change our macroeconomic forecasts this quarter, so while there was some modest impact at the segment level, overall this had a neutral impact on our allowances. On a quarter over quarter basis, PCL on performing loans, increased by $24 million from last quarter. I'd now like to provide a bit more detail on 3 of our businesses. In Canadian Banking, PCL on loans of $329 million, decreased by 8 bps from last quarter, largely due to the higher provisions we experienced in Q2 in our commercial lending portfolio. In Wealth Management, PCL on loans decreased by $3 million from last quarter, reflecting relatively stable credit trends at City National. In Capital Markets, PCL on loans increased by $29 million from last quarter, mostly due to provisions on performing loans of $3 million this quarter compared to a release in provisions of $21 million last quarter, reflecting the change in macroeconomic forecasts noted earlier. Provisions on impaired loans were largely related to one previously impaired account in the Industrial Products sector. Additionally, impaired loans in the oil & gas sector contributed to provisions this quarter.

Turning to slide 14. Gross impaired loans of $3 billion decreased by 2 bps from last quarter, largely due to higher repayments in Caribbean Banking and higher write-offs in Canadian Banking. Relative to Q2, new impaired loan formations declined in our retail portfolio and more notably in our wholesale portfolio. We continued to see new formations in the oil & gas sector as oil & gas prices remained under pressure this quarter, but as expected, the trend is moderating. Overall, we remain comfortable with our exposure to the sector. It represents only 1% of RBC's loan book, is governed by borrowing bases and sized to the proven reserves of the borrowers, which provides good protection against credit losses. The remaining new impaired loan formations in our wholesale portfolio were spread broadly across sectors and geographic regions.

Turning to slide 15, our Canadian retail portfolios were generally stable both in terms of provisions and new formations this quarter, notwithstanding the solid growth Dave noted earlier. This not only reflects strong economic fundamentals, but also the strength of our underwriting standards, which give us confidence that our portfolio will be resilient throughout a credit cycle.

In closing, we are pleased with our overall performance this quarter, which remains in line with our previous guidance as we continue to benefit from the diversification of our portfolios, both in terms of geography and industry, as well as our prudent approach to risk management. With that operator, let's open the lines for Q&A.

### DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Thank you, everyone, for attending today's call and for your questions. The themes show that this is a record quarter for RBC at $3.3 billion, driven by really strong client volumes, revenue from our retail businesses, Canadian Banking, Caribbean, Wealth Management (Canadian and U.S.) and Insurance. We had couple of challenging outcomes including Investor and Treasury Services but overall, we feel good about the momentum, the client driven momentum and feel ready to challenge some of the headwinds that are coming out. Thank you for your questions and look forward to speaking again in Q4. Thanks.

## 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 pre-provision pre-tax earnings, results excluding the gain related to the reorganization of Interac, results excluding the loss related to an investment in an international asset management joint venture, and results excluding the gain related to the sale of a mutual fund product and transfer of its associated team, 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 Q3/2019 Report to Shareholders and our 2018 Annual Report.

Definitions can be found under the “Glossary” sections in our Q3/2019 Supplementary Financial Information and our 2018 Annual Report.