ROYAL BANK OF CANADA
SECOND QUARTER 2012 RESULTS
CONFERENCE CALL
THURSDAY, MAY 24, 2012

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We caution that the foregoing list of risk 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 the Risk management and Overview of other risks sections of our 2011 Annual Report and the Risk Management section of our Q2 2012 Report to Shareholders.

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GORDON M. NIXON, PRESIDENT & CEO

As you can see from our results, we had a strong second quarter. Earnings from continuing operations were over 1.5 billion dollars, but more importantly, were 1.8 billion dollars, which is up 5% when you exclude the previously announced loss related to the acquisition of the remaining 50% of RBC Dexia.

I’d remind people that the lower the price that we paid for the other 50% of Dexia, the larger the accounting loss, or the reverse; if we had paid a premium, we would have recorded a gain. These results, with the exception of the Dexia numbers, are very clean, and they reflect solid performance in Canadian Banking, Capital Markets, insurance and Wealth Management segments.
Year to date, RBC has earned 3.4 billion dollars from continuing operations, or excluding the Dexia loss, 3.6 billion dollars, which is a return on equity of 19.3%. Our ability to continue to deliver strong results to our shareholders is a testament to the strength of our diversified business model, and our ability to successfully execute on our disciplined growth strategy. Our results also reflect our strict discipline around managing costs and risks and our commitment to maintaining a strong capital position, all of which are key to RBC’s operating philosophy, and especially important in today’s environment, with market and economic uncertainty.

Our Tier 1 ratio now stands at 13.2%, which is up 100 basis points from last quarter, primarily driven by the sale of our US retail operations, which closed on March 2. We already meet the Basel III capital requirements, which become effective in the first quarter of 2013 for Canadians, and 2019 for the rest of the world. Our estimated Basel III pro forma Tier 1 capital equity ratio is 8.3%, based on our current interpretation of the rules, which, of course, have yet to be finalized. Our financial strength remains a clear competitive advantage in today’s environment. We have financial flexibility. We continue to take a measured approach to capital deployment, and strive for optimal balance between investing in our businesses for long-term growth, returning capital to shareholders, and pursuing select acquisitions.

I’d now like to turn to our businesses. Canadian Banking had another strong quarter, accounting for over half of RBC’s total earnings. Our consistently strong results clearly demonstrate our continued ability to capture a disproportionate share of market growth by successfully leveraging our superior cross-sell ability, and unparalleled distribution network to better serve our customers. While our target is to grow volumes at a 25% premium to the market, last quarter, Canadian Banking delivered a 50% volume growth premium to our peers, and achieved new highs in customer loyalty measurements.

I’m pleased to note that Canadian Banking was recently named best retail bank in North America by Retail Banker International, and Dave McKay won Retail Banker of the Year, based on a criteria of exceptional performance and leadership, including our high levels of sustainable, profitable growth. These prestigious awards are highly regarded within the industry, and represent an exceptional level of achievement. RBC was the only Canadian financial institution to be short-listed in five categories, and the only Canadian financial institution to win an award.

A key to RBC’s success is our ability to provide customers with superior advice, convenience, service, and value for money. For example, in our commercial markets business, our focus on industry specialization and advice drove strong year-over-year growth in business loans of 9%, and in business deposits of 11%. We are differentiating the customer experience through our focus on technology and innovation, while continuing to drive efficiency. For example, our recently announced partnership with Shoppers Drug Mart, which has the number one loyalty program in the country, efficiently expands RBC’s distribution through a unique bank offering. Additionally, we have improved our in-branch sales force productivity by 8% over the last 12 months, while continuing to add new functionality to our online and mobile banking applications, such as our Virtual Visa Debit Card.

Overall, we believe the scale of our banking business provides an enormous potential to drive further growth and improve efficiencies, and Janice will comment on how we are effectively balancing costs as we invest to expand our leadership position.

Moving on to Wealth Management. We had a strong quarter. We continued to extend our distribution and product strength, and we were recognized for many of those achievements. These included recognition for our international Wealth Management business; specifically, our world leading trust capabilities, and for our Canadian business, as well. Advisors rated our full service Canadian Wealth Management business number one for the sixth year in a row, which underlines our success in increasing our share among high net worth clients in Canada.
Our Global Asset Management business continued its leadership at home, with a strong RSP season, and a record April for long-term fund sales in the face of volatile markets. This quarter, we continued to build on our existing strength in serving high and ultra high net worth clients globally, including those from emerging markets, with the agreement to acquire the Latin American, Caribbean, and African International Private Banking Business from RBS Coutts.

Turning to insurance, we had another strong quarter. This business continues to make a consistent contribution to our diversified earnings stream, and complements our overall retail offering by providing innovative, client-focused solutions through our multi-channel distribution network.

Moving to International Banking, starting with RBC Dexia, we look forward to having 100% ownership, as this is a strong business in an attractive sector, and we believe that we can leverage RBC’s reputation, brand, and financial strength to win additional business, to improve the financial performance, and drive further growth. We expect this transaction to close in the middle of this year.

In Caribbean Banking, our performance continues to reflect the prolonged weak economic conditions, including reduced demand for business loans, and a challenging credit environment, and Morten will discuss this later. We do believe that, over the long term, this remains an attractive region for RBC, as we are the second largest bank in the English Caribbean, and we have a strong brand presence. Additionally, the investments we have made in recent years to strengthen this business, and integrate systems across the jurisdictions in which we operate, is nearly complete, and will enable us to improve the client experience, and drive efficiencies.

Finally, within the US cross-border banking, we have now successfully transitioned our clients to our new banking platform in the United States, which was designed to meet the needs of clients following the sale of our US retail banking operations. This foundation provides exciting opportunities, as we believe that RBC has a competitive advantage, being the only bank of scale that can offer cross-border clients the accessibility to seamlessly manage, view, and transact banking accounts on both sides of the border in a totally integrated manner.

Moving to Capital Markets, we had another strong quarter of earnings. Our results were driven by increased client activity and favorable market conditions throughout most of the quarter, and we continue to see strong business activity. We are successfully leveraging the strength of both Corporate and Investment Banking in global markets, including our loan book, to deepen our client relationships, and we led a number of notable transactions this quarter.

For example, we acted as Lead Financial Advisor and Book Runner in Apollo’s 7 billion dollars acquisition of El Paso's exploration and production company, and Joint Book Running Manager on the related credit transactions. This was one of the largest energy leverage biotransactions in history. We also acted as Financial Advisor to Switzerland-based Glencore International, the world’s largest integrated producer of marketer commodities on its 7.5 billion dollars acquisition of Viterra, Canada’s leading grain handler, and provided the debt financing to Glencore as part of the transaction. The acquisition represents the largest Canadian M&A transaction since August of 2010, and the second largest global M&A transaction in 2012 year to date.

As many of you know, we are hosting a Capital Markets investors day on June 1, where you will hear directly from Doug and Mark on their strategy and their outlook for the business.

To conclude, our results in this quarter continued to demonstrate RBC’s earnings power, driven by our leading market position, diversified business mix, strong capital position, and prudent focus on managing risk. Going forward, we are well positioned to continue extending our lead in Canada, and build strong client relationships in select US and international markets, while delivering long-term growth to our shareholders. Notwithstanding challenging issues around the
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globe, we have aggressively restructured our operations. We’ve reallocated capital away from underperforming assets. We’ve de-risked the balance sheet, and we feel all of our businesses are well positioned, and for the most part are performing very well.

MORTEN FRIIS, CHIEF RISK OFFICER

While we saw a modest uptick in provisions this quarter, overall credit quality remains sound. Provision for credit losses from continuing operations increased 9 basis points, or 81 million dollars from the prior quarter to 39 basis points, or 348 million dollars.

This increase is in part a reflection of seasonality and volume growth, and was driven by provisions in our Caribbean wholesale and retail lending portfolios, as well as provisions on two accounts in each of our corporate and Canadian commercial portfolios.

I want to emphasize that the watch list is at a low for the corporate book, and we see no evidence of weakening in the wholesale books overall. With respect to the 7 billion dollars Caribbean loan portfolio, as we have previously highlighted, given the region's dependence on tourism from both North America and Europe, we believe that, until we see a more sustained global economic recovery, the credit environment will likely continue to be challenging.

With respect to gross impaired loans, the pace of new impaired loans formations at 471 million dollars increased compared to the last quarter, but is at the low end of our recent historical range.

Turning to our retail portfolio on slide 10. Impaired loans are down 40 million dollars, quarter over quarter. Overall loss rates remained relatively stable at 34 basis points of PCL, down from 35 basis points last quarter. Provisions on residential mortgages at 1 basis point are consistent with our historic performance, and we continue to actively monitor the breadth of this portfolio.

With the housing market discussion, while there’s general concern over the pace and scale of condo development, I want to emphasize that RBC's total exposure to high rise condo construction is spread across a significant number of projects, and remains manageable, at just under 1 billion dollars of outstanding loans, representing less than 3% of our commercial loan book.

Turning to slide 11 on European exposures. We continue to follow market events very closely, and manage our exposures accordingly. Compared to last quarter, our net exposure to Europe was down approximately 1.7 billion dollars, primarily reflecting ongoing risk management and balance sheet optimization. I will point out that our net exposures do not yet reflect the securities exchange related to the acquisition of the other 50% of RBC Dexia. They report risk exposures on a one-month lag. The securities exchange announced at the time of the agreement to purchase the rest of the ownership of RBC Dexia has allowed us to effect the de-risking of the investment portfolio in that business, immediately reducing the level of European exposure, and causing a general shift to lower-risk assets in that portfolio.

Overall, we continue to transact in a prudent manner, and remain comfortable with our exposures in Europe, which are with well-rated counterparties, mainly located in larger European countries.

Turning to market risk. Average management VaR was 37 million dollars, down 3 million dollars over last quarter, and stressed VaR, which is calculated using the data from the most volatile historical period, was 60 million dollars, down 5 million dollars over last quarter. Both measures reflect ongoing risk reduction activities during the quarter.

We had a total of four days with net trading losses during the quarter, with no losses exceeding VaR. The largest loss of 6 million dollars occurred on April 30, reflecting increased market volatility toward the end of the quarter.
Turning to slide 13. As Gord mentioned, we had a strong second quarter, with earnings from continuing operations of over 1.5 billion dollars. Excluding the RBC Dexia after-tax loss of 202 million dollars, net income from continuing operations was 1.8 billion dollars, up 83 million dollars, or 5%, over last year. Overall, it was a very clean quarter, and I will briefly review the performance of our business segments.

Canadian Banking net income was 937 million dollars, up 42 million dollars from last year. Excluding the prior-year gain on the sale of Visa shares of 21 million dollars after tax, earnings were up 7%, reflecting continued strong volume growth of 9%, mainly driven by business and personal deposits, and residential mortgages, and business loans. Second quarter results in Canadian Banking are impacted by seasonality, including fewer days in the quarter, and this was a key driver of the 6% decline in earnings over the last quarter.

Looking at slide 16, net interest margin was down 3 basis points compared to last quarter, mainly due to the continued low rate environment. Operating leverage this quarter strengthened. Excluding the prior-year gain on Visa shares, operating leverage was positive at 1%, and we remain focused on costs to maintain this improving trend in the second half of the year.

We're committed to driving our efficiency ratio down to the low 40s over the medium term, and we're seeing good progress from a number of initiatives underway in Canadian Banking. For example, we're seeing continued savings from conversion to e-statements, with approximately 75% of the accounts converted.

Turning to Wealth Management, we earned 212 million dollars, excluding the favorable accounting and tax adjustments of 26 million dollars after-tax in the prior year. Earnings were up 11 million dollars, or 5%, driven by higher average fee-based client assets, partially offset by lower transaction volumes, reflecting continued investor uncertainty. Compared to last quarter, earnings were up 24 million dollars, or 13%, mainly due to higher transaction volumes on improved market conditions, particularly in the early part of the quarter, and higher average fee-based client assets from capital appreciation and increased net sales.

Moving to insurance. Net income of 151 million dollars was up 28 million dollars, or 23%, compared to last year, driven by volume growth across most products, and lower claims costs in the Canadian insurance products. Compared to last quarter, earnings were down 39 million dollars, or 21%, as last quarter's results included net investment gains. Lower results from our UK annuity business this quarter, and unfavorable actuarial adjustments, also contributed to the decrease.

International Banking had a net loss of 196 million dollars. Excluding the RBC Dexia loss, net income was 6 million dollars, down 40 million dollars from last year, and down 18 million dollars from last quarter, driven primarily by higher PCL in Caribbean banking, which Morten discussed.

In Capital Markets, net income was 449 million dollars, up 43 million dollars, or 11%, from last year, driven by higher trading revenue and solid Corporate and Investment Banking revenue, reflecting favorable market conditions throughout most of the quarter. Earnings were flat from the prior quarter, as strong growth in equity and debt issuance and higher equity trading was more than offset by lower loan syndication activity, and a higher effective tax rate, reflecting increased earnings in higher tax jurisdictions. Overall, we are very pleased with our strong performance this quarter.