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May 30, 2013 / 8:30AM EDT, RBC Second Quarter 2013 Results Conference Call

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 financial performance objectives, vision and strategic goals will not be achieved. We caution readers not to place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors – many of which are beyond our control and the effects of which can be difficult to predict – include: credit, market, liquidity and funding, operational, legal and regulatory compliance, insurance, reputation and strategic risks and other risks discussed in the Risk management and Overview of other risks sections of our 2012 Annual Report and in the Risk management section of our Q2 2013 Report to Shareholders; the impact of changes in laws and regulations, including relating to the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations issued and to be issued thereunder, the Basel Committee on Banking Supervision’s global standards for capital and liquidity reform, over-the-counter derivatives reform, the payments system in Canada, consumer protection measures and regulatory reforms in the U.K. and Europe; general business and economic market conditions in Canada, the United States and certain other countries in which we operate, including the effects of the European sovereign debt crisis, and the high levels of Canadian household debt; cybersecurity; the effects of changes in government fiscal, monetary and other policies; the effects of competition in the markets in which we operate; our ability to attract and retain employees; the accuracy and completeness of information concerning our clients and counterparties; judicial or regulatory judgments and legal proceedings; development and integration of our distribution networks; and the impact of environmental issues.

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. Material economic assumptions underlying the forward-looking statements contained in these speakers’ notes are set out in the Overview and outlook section and for each business segment under the heading Outlook and priorities in our 2012 Annual Report, as updated by the Overview section of our Q2 2013 Report to Shareholders. 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 2012 Annual and in the Risk management section of our Q2 2013 Report to Shareholders.

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GORDON M. NIXON, PRESIDENT & CEO

I am pleased to announce that RBC earned 1.9 billion dollars in the second quarter, up 26 percent from last year. Excluding certain items pertaining to our acquisition and integration of RBC Investor Services, which Janice will expand on in her remarks, our earnings were approximately 2.0 billion dollars(1), up 13 percent from last year and excluding amortization of intangibles, earnings per share were $1.31(1).
We had solid earnings growth compared to last year across all of our business segments, with Canadian Banking and our corporate and investment banking and asset management businesses being particularly strong but I would emphasize that all our businesses were up. Year-to-date RBC has earned just over $4 billion dollars, delivering a return on equity of 19.1 percent.

Our “all-in” Common Equity Tier 1 ratio remains strong at 9.1 percent and that’s notwithstanding the 45 basis point reduction as a result of Ally. That strong ratio gives us flexibility in deploying our capital as we strive for the optimal balance between investing in our businesses for longer-term growth, returning capital to shareholders through dividends and share buybacks, which we started this past quarter, or pursuing select acquisitions, like Ally Canada.

The strength and the complementary nature of our diversified business model continues to contribute to RBC’s earnings power. Even as the Canadian banking industry is facing slower growth, we remain confident in our ability to successfully execute on our strategy, extend our leadership positions, and invest for long term growth.

In fact during the quarter, we were recognized by Bloomberg in their annual list of the World’s Strongest Banks. RBC was ranked the fourth strongest bank in the world, up two spots from last year.

Let me now turn to our business segments. Personal and Commercial Banking had a strong quarter, with earnings of 1.1 billion dollars. Our momentum in Canadian Banking continues. Each of our businesses had solid volume growth compared to last year, as we continued to leverage our size and scale to take a disproportionate share of industry growth while profitably gaining market share.

And our integration of Ally Canada is well underway. We are seeing good progress, as we have retained over 95 percent of commercial clients since closing this deal and our pipeline remains strong. These results reflect our ability to meet our customers’ needs with superior advice, convenience, service and value for money, even as market dynamics shift.

As we bring our advice and solutions to our clients, precisely when and where they are needed most, we remain focused on innovation; through new partnerships, online features and mobile applications.

As examples, we recently partnered with Bell to provide secure, integrated mobile payment solutions for both debit and credit transactions, and with McDonald’s, Moneris and Blackberry, to deliver the first Canadian mobile debit transaction, using mobile Interac Flash. We expect both of these applications to be rolled out more broadly by the end of this year.

I’m also pleased to note that our innovative approach to meeting our clients’ needs was recently recognized by Retail Banker International as we took the top spot, for the first time, in the highly competitive Innovation in Customer Service category.
And, for a second consecutive year, we were awarded Best Retail Bank in North America, in recognition of the strength of our Canadian Banking operations, including the size and scale of our distribution network and breadth and quality of our product offerings.

In Caribbean banking, while our performance improved this quarter reflecting some signs of stabilization in credit quality, results do continue to reflect the prolonged weak economic conditions in the region.

Turning to Wealth Management. We continue to see good momentum in both our Global Asset Management and Wealth Management businesses across most of our regions and we delivered another solid quarter of earnings.

In Global Asset Management, we remained the leader in mutual funds sales in Canada, capturing 23 percent of the market, and net flows strengthened in Canada, the U.S. and BlueBay, which benefited our institutional asset management business. RBC Wealth Management continued to gain market share and, as the largest full-service wealth manager, asset manager and mutual fund provider in Canada, remained the clear market leader.

We ranked first among bank-owned brokerage firms in Canada in Investment Executive’s Brokerage Report Card and were recognized in Canada for Best Private Banking Services Overall by Euromoney.

In the U.S., we continue to make good progress on increasing advisor productivity and efficiency to capitalize on improving market conditions. We were ranked the highest in investor satisfaction among all full-service brokerage firms, according to J.D. Power & Associates. Internationally, we continue to expand our high and ultra high net worth market share, and leverage our capabilities to win more business.

Moving to Insurance. We had another solid quarter of earnings and this business continues to make consistent contributions to our diversified earnings stream.

In Investor and Treasury Services we continue to make solid progress towards integrating RBC Investor Services and strengthening the business model to adapt to the challenging operating environment. While we continue to improve our efficiency and streamline our operations, we are also leveraging our reputation, brand and financial strength to win new clients and business.

Our commitment to delivering superior service to our clients was once again recognized by the R&M Global Custody net survey where we recently won best overall custodian for the third year in a row. We also retained our title as Fund Administrator of the Year in Canada, as part of the 2013 Custody Risk Americas Awards.

Moving to Capital Markets. We continue to see strength in our corporate and investment banking businesses as we remain focused on origination-led and client-based lending and fee-based activities in our target sectors and geographies.
Our diversification is a key strength and reflects what we believe is the right balance of businesses and geographies to drive growth while managing risk.

Our U.S. business now generates significantly more revenue than our Canadian business, as we continue to focus on building client relationships and increasing our market share. Our solid results in that market are helping offset the impact of the prolonged recession affecting many European countries as well as some softness in commodities markets in Canada.

As an example of our strong momentum in the U.S., RBC acted as Lead Financial and Technical Advisor to SandRidge Energy, a U.S.-based oil and gas E&P company, on the sale of its assets in the Permian Basin to U.S.-based Sheridan Production Partners for 2.6 billion dollars. This transaction represented the largest single onshore conventional oil divestiture in the last 10 years. As part of this transaction, we also acted as Joint Lead Arranger and Joint Bookrunner on the 1.7 billion dollar, 5-year, senior secured revolving credit facilities used to fund Sheridan’s acquisition of SandRidge.

Turning to Global Markets, while we have shifted the balance from trading to more lending and traditional investment banking and continue to realign our Fixed Income and Global Equities businesses to a more origination-led model, results can be impacted by changing markets, new regulations, and slowing economies.

While our second quarter results are typically lower than our seasonally adjusted strong first quarter results, trading revenue was particularly softer in the latter part of the quarter due to persisting economic weakness in Europe, a reduction in market volatility and some emerging regulatory reforms, but we have started to see trading volumes tick back up increase in May and seem to be off to a good start.

We remain focused on our originate to distribute model and increasing our relevance to both issuing and investing clients to produce sustainable, fee-driven income streams. We are happy with our progress thus far – we have increased our global fee market share for our Debt Capital Markets business by 38 percent from last year, according to Dealogic, and we have increased the number of bookrun deals in North America by 23 percent in the last six months.

To conclude, our results this quarter demonstrate our ability to extend our leadership positions by successfully executing our strategic initiatives and making focused investments that deliver long-term shareholder value.

Looking ahead at the remainder of 2013, the industry will continue to face economic and regulatory headwinds. However, we do remain confident in our ability to deliver solid results and we are on track to meet our financial objectives.
MORTEN FRIIS, CHIEF RISK OFFICER

Starting with credit on slide 7, overall, credit quality improved compared to the prior year and the prior quarter. Provisions for Credit Losses on impaired loans were 288 million dollars this quarter, down 61 million dollars over last quarter or 6 basis points to 29 basis points.

The main driver of this decrease was lower provisions in Capital Markets, where provisions were 40 million dollars, or 31 basis points, down 69 million compared to the prior quarter. Provisions this quarter were related to a couple of accounts within the Technology and Media sector.

Loan loss provisions within our wholesale portfolio should be expected to show some degree of variability from period to period, with this quarter’s provisions falling at the better end of the range.

Overall, we remain comfortable with the quality of the wholesale loan book.

With respect to Canadian Banking, provisions were 234 million dollars, up 21 million dollars over last quarter, or 3 basis points to 29 basis points. We continue to see stable performance in our retail portfolios with provisions on residential mortgages of 2 basis points and 279 basis points for cards. Provisions in our commercial portfolio were up slightly in the quarter at 33 basis points.

Overall, provisions of 29 basis points on our Canadian Banking portfolio remain near historic lows reflecting very strong credit performance across all products.

In the Caribbean, provisions on impaired loans were 19 million dollars, down from the prior quarter which we believe represents a sustainable level of loan losses for this portfolio. Conditions in the Caribbean remain challenging and achieving ongoing stability in asset quality will depend on improving economic conditions in the region.

With respect to gross impaired loans, new formations increased slightly over last quarter but remain within our historical range.

Turning to market risk, average Market Risk VaR was 42 million dollars, and average Market Risk Stressed VaR was 84 million dollars, both at similar levels to last quarter. During the period we had 3 days with net trading losses totaling $5 million dollars, none of which exceeded Market VaR, with the largest loss of $2 million driven by RBC’s credit spread tightening.
Turning to slide 10, we had a strong second quarter, with earnings of approximately 1.9 billion dollars. Excluding the restructuring charge in the current period related to the integration of Investor Services and a loss in the prior year related to the acquisition of the remaining 50 percent interest in that business, earnings were close to 2.0 billion dollars\(^{(1)}\), up 13 percent over last year.

Overall it was a clean quarter, and as Gord mentioned, we had solid earnings growth in each of our business segments with particular strength in Canadian Banking as well as our corporate and investment banking and asset management businesses.

Turning to our capital discussion on slide 11. As you know, RBC, along with the five other big Canadian banks, was designated a Domestic Systemically Important Bank by OSFI. As a result, we are required to maintain a 100 basis point capital buffer on top of the Basel III minimum “Common Equity Tier 1” ratio of 7 percent by 2016.

At 9.1 percent, our “Common Equity Tier 1” ratio remains comfortably above the 8 percent combined requirement. Our Ally Canada acquisition, which closed on February 1st, negatively impacted our ratio by 45 basis points. As well, we began repurchasing shares this quarter under our Normal Course Issuer Bid.

Turning to the performance of our business segments starting on slide 12.

Personal and Commercial Banking earned over 1 billion dollars for the fourth consecutive quarter, up 117 million dollars or 12 percent from last year, reflecting 9 percent volume growth in Canadian Banking with growth across all of our businesses, and particular strength in personal lending. Net income decreased 63 million or 6 percent sequentially, largely due to the negative impact of seasonal factors including fewer days in the quarter.

Turning to our Canadian business. Margins in Canadian Banking were down 5 basis points from last quarter due to lower spreads reflecting the continued low interest rate environment and competitive pressures, particularly in business lending. The Ally Canada acquisition negatively impacted our margins by approximately 1 basis point, primarily due to costs associated with the unwind of the deposits.

We also experienced some accounting volatility this quarter which negatively impacted our margins by approximately 2 basis points. Of the 5 basis point decline, about half is not recurring.

As I mentioned on our last quarterly call, we expect margins to remain under pressure for the remainder of 2013 given the interest rate environment, slowing consumer lending and competitive pressures.

Let me briefly comment on Ally Canada. Ally contributed earnings of 12 million dollars this quarter or 24 million dollars\(^{(1)}\) when you exclude the 12 million dollars of integration
costs and amortization of intangibles. Integration of the business is proceeding well and we continue to expect that it will generate earnings of around 120 million dollars – on a stand-alone basis, excluding integration activities – within the first twelve months after closing.

Our reported operating leverage and efficiency ratio were 0.7 percent and 45 percent, respectively. Excluding the impact of the Ally Canada acquisition, our operating leverage was 1.8 percent\(^{(1)}\), driven by solid revenue growth and continued benefits from our cost initiatives. On the same basis, our efficiency ratio was 44.6 percent\(^{(1)}\), down 70 basis points from last year and we remain committed to driving the ratio down to the low 40’s over the medium term.

Turning to Wealth Management on slide 13. Net income was 225 million dollars, up 13 million dollars or 6 percent from last year due to higher average fee-based client assets resulting from net sales and capital appreciation and improved transaction volumes.

Sequentially, net income was down 8 million dollars or 3 percent, as higher average fee-based client assets this quarter were more than offset by the seasonality of performance fees earned in the first quarter. As a reminder, we typically recognize performance fees in the first and third quarter.

Moving to Insurance on slide 14. Net income of 166 million dollars was up 15 million dollars or 10 percent over last year, driven primarily by a favourable change in actuarial adjustments, investment gains and favourable life experience. Compared to the prior quarter, results were relatively flat.

Turning to Investor and Treasury Services on slide 15. Earnings were 67 million dollars this quarter compared to a net loss of 121 million dollars a year ago. Excluding the restructuring charge in the current quarter related to the integration of Investor Services, primarily in Europe, and the related acquisition loss in the prior year, as noted on slide 15, earnings of 98 million dollars\(^{(1)}\) increased 17 million dollars or 21 percent over last year and were up 18 million dollars or 23 percent over last quarter.

Earnings grew over both periods reflecting improved results in RBC Investor Services as we benefited from our ongoing cost management activities, higher foreign exchange revenue and higher average fee-based client assets. Our results were partially offset by lower funding and liquidity revenue.

As Gord mentioned, our RBC Investor Services integration efforts are well underway and as the majority of our integration costs occurred this quarter, we anticipate these costs to decline for the remainder of 2013.

Turning to Capital Markets on slide 16. Earnings of 386 million dollars were up 15 million dollars or 4 percent from last year, driven by strong growth in our corporate and investment banking businesses, particularly in loan syndication and lending in the U.S. This strong performance was largely offset by lower fixed income trading in Europe, particularly in the latter part of the quarter, driven by challenging market conditions.
Compared to last quarter, net income was down 78 million dollars or 17 percent mainly due to lower fixed income trading results driven by challenging market conditions and a seasonally strong first quarter.

While our corporate and investment banking results were solid, they were not as strong as the robust levels we saw last quarter, when we closed a number of large M&A and loan syndication deals.

To wrap up, we are very pleased with our performance this quarter. Every business segment grew earnings compared to last year, demonstrating the continued strength of our diversified business model.

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 non-GAAP measures we believe provide useful information to investors regarding our financial condition and result of operations. Readers are cautioned that non-GAAP measures, such as earnings excluding certain items related to our acquisition and integration of RBC Investor Services, earnings excluding amortization of intangibles, Canadian Banking performance measures excluding Ally Canada, and Ally Canada earnings excluding integrations costs and amortization of intangibles 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 non-GAAP measures can be found in our Q2 2013 Report to Shareholders and our Q2 2013 Supplementary Financial Information package.

1 These are non-GAAP measures. For additional information, see the Note to users.