ROYAL BANK OF CANADA
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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 – many of which are beyond our control – include: credit, market, operational, liquidity and funding risks, and other risks discussed in the Risk, capital and liquidity management section of our Q3 2009 Report to Shareholders and in our 2008 Annual Report to Shareholders; market environment impacts, including the impact of the volatility in the financial markets and potential lack of liquidity in certain credit markets, and our ability to effectively manage our liquidity and our capital ratios and implement effective risk management procedures; general business and economic conditions in Canada, the United States and other countries in which we conduct business; changes in accounting standards, policies and estimates, including changes in our estimates of provisions, allowances and valuations; 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 fiscal, monetary and other policies; the effects of competition in the markets in which we operate; the impact of changes in laws and regulations, including tax laws; 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 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 the Risk, capital and liquidity management section of our Q3 2009 Report to Shareholders, and in our 2008 Annual Report to Shareholders.

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I am pleased to report that RBC delivered record results this quarter. We earned $1.6 billion for our shareholders, with revenue of over $7.8 billion, a return on equity of 19.5% and earnings per share of $1.05.

Turning to slide 5, you can see items that impacted our earnings. Namely, market-related losses and a general provision. Together, these reduced net income by $190 million and earnings per share by $0.13. As you can see, market-related losses continue to subside.

Global capital markets continued to improve from last quarter and we have seen some signs of recovery in the general economy. Of course, higher unemployment levels have had an impact on our loan portfolios and the low interest rate environment is keeping pressure on retail margins.

I believe our diverse business mix is a key differentiator for our organization. We had strong results from Capital Markets and continue to see very solid performance from our Canadian Banking, Wealth Management and Insurance operations. We continue to take advantage of market opportunities to build on our competitive positions and to drive efficiencies across our businesses.

Moving on to Slide 6, our capital ratios are extremely strong both in absolute terms and relative to peers around the globe. Our Tier 1 ratio is 12.9%. This represents an excess of $10.7 billion over our medium-term objective of 8.5% plus. Our tangible common equity ratio is 9.1%.

While these levels are high, I firmly believe we should only deploy capital on opportunities that meet our strategic and financial criteria. Over the next two to five years, I believe there will be plenty of restructuring in the financial services industry. With this restructuring comes significant opportunity. Our strong financial position gives us the flexibility to invest in our businesses and grow our asset base at a time when banks around the world will be shrinking theirs.

With respect to acquisitions, as I have said in the past, we remain disciplined in our approach and are focused on exploring any options that complement our existing businesses and existing growth strategies. Our priority with any acquisition is to enhance our platform in markets where we have an existing franchise and where we have the ability to generate a strong and reasonable return.

We are maintaining our quarterly dividend at $0.50 per common share. Our dividend payout ratio in the quarter was 47%, well within the target range of our medium-term objective. A stable and growing dividend, supported by the long-term earnings power of our company, is an important component and driver of both short-term and long-term shareholder returns.

Before I spend some time on each of our business segments I would like to remind you that we require each of our reported segments to fully absorb the costs of running its business. I touched on this last quarter. We believe this provides an accurate picture of each segment’s performance and incents appropriate business decisions.

Here are three key examples:
First – Each of our reported segments fully absorbs the impact of the interest rate environment on their respective businesses. In other words, our Corporate Support segment does not absorb margin compression. This quarter we began to see stability in interest rates and would expect to see rates eventually rise.

Second – Mortgage securitization activity is a funding decision at the RBC-consolidated level. Thus any earnings impacts remain in our Corporate Support segment and do not factor into individual segment performance.

And third – We fully attribute specific provisions for credit losses to the relevant business segment.

Banks treat these areas differently, which results in significant variance in segment revenue, net interest margins and earnings across the banks. This variance has been amplified by the shifting interest rate and economic environment. This has made it difficult for investors to properly compare performance of Canadian retail operations of the various banks.

Turning now to our Canadian Banking segment, this segment again delivered extremely strong results. We continue to grow volumes and profitably gain good market share across our business by leveraging our distribution strength and scale. As you can see on slides 7 and 8, we grew balances by 11% over last year and have good market share momentum. What is equally impressive is that we have been able to support this double-digit growth operationally without increasing costs. Over the first three quarters of 2009, our Canadian Banking segment has held non-interest expense flat from the prior year, reflecting our strong cost discipline. This platform delivered operating leverage of 3.1% and an efficiency ratio of 48.1% in the year-to-date. Margins continue to be affected by the low interest rate environment. However, we are seeing stability and as I said, would expect that to eventually turn around. In terms of credit performance, our provisioning levels are within our expectations and consistent with the current economic environment.

Our Wealth Management segment performed well. We started to see asset values recover and investor confidence return to the market. We had industry-leading long term fund sales in Canada and added over 100 experienced advisors across the platform. Our focus on containing costs is reflected in the decline in non-interest expense from last quarter.

Our Insurance segment made a solid contribution to our diversified earnings stream and complements our retail product offering. We continue to grow across all businesses and expand our distribution network.

In International Banking, our U.S. retail operations had a loss again this quarter. However, the credit profile is showing signs of improvement as the rate of deterioration in our loan portfolios have slowed. We remain committed to refining our U.S. banking operating model to become more efficient and competitive. Our Caribbean banking business continued to perform well.
Our Capital Markets segment again displayed the benefits of its robust and diverse platform. Our equity, fixed income, money markets and foreign exchange businesses all performed extremely well. As Canada’s only global investment bank, we are positioned to take advantage of market opportunities.

Looking at slide 10, we were voted Best Investment Bank in Canada by Euromoney, winning all three categories – debt, equities and mergers and acquisitions. RBC Capital Markets continues to rank number one or two domestically in virtually all of our key businesses. Outside Canada, we have a tremendous opportunity to increase market share and build our client base across our businesses. We retained the number one global ranking for Canadian dollars in the 2009 Euromoney FX Poll and our overall market share in FX moved up two places in the global league tables to number 17.

An example of our global fixed income strength was highlighted by Credit Magazine’s 2009 European Credit Awards. Clients voted us top overall and top in a number of individual categories.

We won Best Overall Credit House ahead of JP Morgan. In terms of individual categories, we won Best Bank for Sterling Bonds ahead of Barclays, Best Bank for Non-Core Currency Bonds ahead of JP Morgan, and Best Bank for Electronic Trading ahead of Deutsche Banc.

I point these out to highlight the strength and diversity of our client-based capital markets businesses, which we have been building over the past number of years. We continue to hire talent, extend our balance sheet in a disciplined manner, and build our client base.

In conclusion, our results this quarter demonstrate the strength of our franchise, the value of our diversified business model and our commitment to serving our clients. We remain focused on helping clients create confidence for their future by leveraging our expertise and global capabilities. This focus has resulted in greater sales volume and deeper client relationships. Our financial stability and our reputation for prudent management have helped us take advantage of opportunities in the marketplace – to attract both new clients and new employees.

In conclusion, RBC is well positioned for the future. I want to recognize our employees around the world, whose commitment to RBC and our goals is strong continues to be very strong. Their success with our clients certainly gives me confidence that we will continue our story of growth.

With that, I’ll turn it over to Morten Friis.

MORTEN FRIIS, CHIEF RISK OFFICER

Turning to credit on slides 12 to 15, overall provision for credit losses declined $204 million over last quarter with specific provision for credit losses decreasing by $42 million. This quarter we added $61 million to the general provision, relating to our US banking operations. This compares to $223 million last quarter, largely in US banking.

Let me make a couple of observations about where we are in the credit cycle. As I said last quarter, our home building business was among the first portfolios impacted when the housing
market turned downward and economic conditions slowed. Residential builder finance portfolios in the US, including ours, were at the front end of the credit deterioration and were impacted earlier than other areas. This quarter we had lower provisions in this portfolio as compared to the second quarter.

Looking beyond residential builder finance, credit losses typically come off the peak one year after the trough of the economic cycle. This quarter, the pace of economic decline in the US slowed, reflecting some signs of stabilization. However, our US banking portfolios will continue to be under pressure until the economy shows sustained improvement.

At this point in the credit cycle, I believe the areas that remain most vulnerable are U.S consumer credit and commercial banking, including commercial real estate. We have relatively small exposures to both of these areas when viewed in the context of overall RBC loans.

In Canada, the high level of unemployment will likely continue to impact credit card and retail unsecured lending portfolios despite the fact that signs of economic recovery emerged during the quarter.

Turning to credit performance on a business segment basis: In International Banking, provisions decreased by $59 million from last quarter as a result of lower provisions in US banking and the impact of the strengthening Canadian dollar. We had lower provisions in residential builder finance, as well as residential mortgages and lot loans. These factors were partially offset by higher provisions in our U.S. commercial portfolio, including commercial real estate loans.

Our Caribbean portfolios have not been immune to the economic downturn, particularly in tourism dependent economies, as seen by the increased impaired loans in our RBTT wholesale portfolio. However, overall provisions remain flat compared to last quarter. As a reminder, our Caribbean portfolio is small, and is primarily retail and commercial.

In our Canadian Banking segment, the decrease of $11 million in provisions from last quarter is mainly due to lower provisions in business loans, partially offset by higher loss rates in unsecured retail portfolios, including credit cards. Credit card specific provisions as a percentage of average loans increased 30 bps to 467 bps.

This is within what we believe is an acceptable range in light of the sustained recessionary conditions and increased personal bankruptcies. Our credit card business is highly profitable – the underwriting and pricing of the portfolio is designed to deliver an appropriate balance of risk and reward through the entire credit cycle, including downturns.

Canadian residential mortgage provisions remain stable, consistent with historical performance. Despite an increase in impaired loans we believe losses will remain low.

Capital Markets specific provisions increased $32 million, primarily related to a single loan as well as a few other impaired loans mainly in our Canadian corporate lending portfolio.

Turning to market risk. We had 3 days of net trading losses none of which exceeded VaR. We also had one day of large net trading gains, which arose primarily from credit valuation adjustments. Our daily trading revenue and global VaR over the quarter is shown on pages 27 and 28 of our Third Quarter Report to Shareholders.
As Gord mentioned, our Tier 1 capital ratio was 12.9%, up 150 bps from last quarter. This was primarily due to lower risk adjusted assets and internal capital generation from earnings. Risk adjusted assets were down by $22.6 billion from last quarter, largely attributable to the stronger Canadian dollar and continued management of our balance sheet and a reduction in wholesale credit exposures.

Our Tier 1 capital was up by $1.1 billion from last quarter largely due to higher retained earnings, partially offset by a higher unrealized foreign currency translation loss relating to our equity investments in foreign subsidiaries. Note that we decided in recent quarters to hedge more of our investments in U.S. subsidiaries, which mitigated the impact of the subsequent strengthening of the Canadian dollar on this component of our capital.

As you know, capital markets began to stabilize in our second quarter and this trend continued through the third quarter. As a result, market environment-related losses continue to subside and net unrealized losses in our available-for-sale portfolios narrowed.

Over the third quarter, credit spreads for us and many issuers have continued to tighten, reflecting both improved funding markets and increased investor confidence. As I’ve mentioned in the past, credit spread movements have both positive and negative impacts for us. We had negative adjustments on RBC debt designated as held-for-trading and on credit default swaps used to economically hedge corporate loans. Positive credit valuation adjustments on derivative trading activities partially offset these amounts. Our credit spread is now close to pre-crisis levels.

Also, our securitization activity this quarter was significantly lower than the first two quarters of the year. During the first half of the year, we securitized a large number of mortgages through the Government of Canada’s Insured Mortgage Purchase Program (or IMPP) in addition to our regular participation in the traditional Canada Mortgage Bond program. This provided a cost-effective alternative to unsecured debt and allowed us to further improve our liquidity position over that timeframe.

This quarter, the cost differential between securitization and unsecured debt narrowed considerably and access to funding markets also improved. This development, combined with our strong liquidity position, reduced our appetite for securitization compared to the previous two quarters. The IMPP auctions are scheduled to end by September 30, 2009.

Let me now move to slides 17 and 18. Net income for Canadian Banking was down 6% from last year related to higher provision for credit losses and spread compression. Compared to last quarter, earnings were up 15% primarily reflecting seasonal factors, continued volume growth and higher mutual fund distribution fees due to capital appreciation.

Looking at slide 19, you can see we experienced margin compression from last quarter. The decline in interest rates was a key factor here. Recall that the Bank of Canada overnight rate was 25 bps throughout the third quarter, as compared to an average of 64 bps in the second
quarter. This decline impacted spreads on demand deposits which in turn, put pressure on net-interest margins. The Prime BA spread was also lower on average by 6 bps, causing spread compression on prime-based products. As Gord mentioned, we base transfer pricing on external market costs and each segment fully absorbs the costs of running their businesses.

Wealth Management net income was down 10% over last year mainly reflecting the impact of the market decline. As market conditions improved over the last quarter, net income this quarter rose 33% on higher transaction volumes and fee based client assets.

Insurance net income was 22% higher over last year reflecting growth in all businesses and lower funding charges. Net income was up 48% from last quarter due to favourable actuarial adjustments and claims experience, business growth and the impact of a new U.K. reinsurance annuity arrangement.

International Banking net loss of $95 million compares to a net loss of $16 million last year relating to higher PCL, largely in U.S. banking and reduced revenue at RBC Dexia IS. The change from last quarter is largely attributable to a goodwill impairment charge of $1 billion taken in the second quarter.

Net income for Capital Markets was $562 million, up $293 million from a year ago due to stronger trading revenue particularly in most of our global fixed income and money markets businesses and U.S.-based equity businesses and lower market environment-related losses. Compared to last quarter, net income was up $142 million on higher trading revenues in our U.S.-based equity and fixed income businesses and lower market environment-related losses.

Slide 20 illustrates RBC’s total trading revenue. We continue to have strong trading revenue in traditional, less structured fixed income products such as bonds, money markets and interest rate derivatives as well as equity products driven by favourable market conditions, increasing client activity and narrowing credit spreads.

At this point, I’ll turn the call over to the operator to begin questions and answers. Please limit yourselves to two questions and then re-queue so that everyone has an opportunity to participate.