ROYAL BANK OF CANADA FOURTH QUARTER RESULTS CONFERENCE CALL WEDNESDAY, DECEMBER 2, 2015

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DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Good morning and thanks for joining us.

Today we reported record Q4 earnings of over 2.5 billion dollars, up 11 percent from last year.

These results capped off a record year, with earnings of 10 billion dollars, up 11 percent from last year, or 9 percent on an adjusted basis. I am very proud to say that we are the first Canadian company ever to earn over 10 billion dollars in a given fiscal year.

We met all of our financial performance objectives.

We grew earnings per share by 12 percent. We delivered a strong return on equity of 18.6 percent, and exited the year with a very strong CET1 ratio of 10.6 percent. And we increased our quarterly dividend twice during the year, for an annualized dividend increase of 8 percent. All of which helped drive solid total shareholder returns.

I'm very pleased with these results, particularly since the macro-economic environment was more challenging for us and our clients than we expected at the beginning of the year.

I'd like to share my perspective on the full-year performance of our business segments.

Canadian Banking had a solid year, with earnings growth of 5 percent despite slowing economic conditions, particularly in the first half of the year, which prompted the Bank of Canada to cut interest rates twice.

Clients took advantage of the historically low interest rates and we saw strong growth in residential mortgages, with balances up 6 percent from last year.

While the overall market grew, we were able to capture a disproportionate share of the growth due to the success of our Employee Pricing campaign.

In addition, we also saw clients switch out of secured lines of credit and into mortgage products to take advantage of better rates, which also contributed to our mortgage growth.

As Mark will discuss, we continued to lend prudently, working directly with our clients to manage their debt.

We also had excellent growth in our cards business this year, with balances up 7 percent as we continued to deliver a compelling value proposition to our clients.

In fact, RBC ranked #1 in 4 out of 5 categories in a recent Rewards Canada report on travel cards.

With our strong product offering, including our flagship Avion and Westjet cards, we've opened over a million new client accounts over the past two years, and seen a growing number of clients switch over to RBC cards.

As a result of technology enhancements we've made to our online sales platform we have seen a 30 percent increase in the number of clients purchasing cards through digital channels.

Turning to deposits, we have the #1 franchise in Canada, with an industry leading market share of combined consumer and business deposits.

Our successful marketing campaigns drove double digit growth in core chequing accounts volumes this year, and attracted a significant number of new clients to RBC.

Core chequing accounts are a key anchor product for us, and within the first 3 months our clients typically expand their relationship with up to 2 to 3 additional products.

On the business side, deposits were up 10 percent from last year. Given market uncertainty many clients wanted to keep their excess funds liquid, and we have supported them through our range of savings products, including a new high interest account.

Moving to investment products, we continued to see strong client demand despite challenging market conditions this year. Client flows were strong as we leveraged the power of our distribution network and breadth of our product suite to drive 9 percent growth in mutual fund assets and we acquired over 110,000 new clients.

Our industry is changing, as we are increasingly interacting with our clients in the digital world. Currently almost 5 million clients actively access RBC products and services using our online, mobile or tablet channels, a number which has grown more than 30% since 2012.

We continue to design new products and services specifically for online and mobile channels, and are excited about a number of digital product launches that we have planned for the coming year.

Turning to Caribbean Banking, we returned the business to profitability this year through a disciplined strategy which included exiting non-core markets, taking out costs, and focusing on quality asset growth.

I'm pleased that we've been able to achieve these results despite ongoing economic headwinds in the region.

Moving to Insurance. As expected, the impact of new tax legislation reduced earnings this year, but I'm pleased with the underlying performance of the business. We continued to see solid growth in new clients, and our strong client satisfaction scores have been increasing steadily over the years.

Turning to Wealth Management. We had solid underlying earnings, though restructuring activities and market conditions impacted this segment's results.

A year ago we decided to realign and restructure our U.S. and International Wealth business, and throughout the year we exited certain regions. These were tough decisions to make, but allow us to better serve ultra and high net worth clients from key centres where we have scale.

Global capital markets were turbulent this year, with the volatility index up nearly 20 percent between May and October, this reflects uncertainty around the timing of a rate hike in the U.S., weakening domestic demand in China, Greece's debt crisis, and falling commodity prices.

As a result, we saw a significant repricing in equity markets, particularly in the fourth quarter, where we saw equity markets were down 7 percent in Canada over the prior quarter.

Global Asset Management, our most profitable Wealth Management business, performed well despite the challenging market conditions. Over 75 percent of our assets under management outperformed their benchmarks over the most recent three-year period.

GAM is an important growth business for us, particularly as we expand beyond the Canadian retail market.

Throughout the year we added new investment solutions and professionals, and expanded our distribution to U.S. and international institutional clients.

We also continued to successfully integrate Blue Bay funds into both the RBC distribution network, and throughout the Canadian retail market.

In Canadian Wealth Management market conditions impacted client assets, and resulted in lower client activity and fewer new issuances, particularly in the second half of the year.

However, even in tough markets we continued to extend our #1 position in the high net worth segment as clients value our team of experienced investment advisors who collaborate with their partners in the retail and insurance businesses to provide a holistic approach to wealth management.

Our U.S. Wealth business is an important part of our franchise, serving 350,000 households south of the border. The U.S. is our second home market which is why we made the decision to acquire City National and create a powerful platform for long-term growth.

As the transaction just closed, this month our focus now is on integrating to bring the best of both organizations to our commercial, capital markets and wealth management clients.

We're excited to tell you more about this great franchise and we're planning a City National Investor Day, which will be held in Toronto on March 4, 2016. We'll be excited to provide additional details in the coming months.

Moving to Investor & Treasury Services, we had a record year, with earnings up 26 percent as market conditions were exceptionally favourable for our clients, particularly in our foreign exchange businesses.

Even with a challenging fourth quarter, which Janice will discuss in more detail, I am pleased with the strong performance of this business this year.

Turning to Capital Markets, we had a record year, with earnings up 13 percent.

Our strong results demonstrate the success of our strategy to focus on traditional corporate and investment banking and origination activities.

Corporate & Investment Banking had record revenue of 3.7 billion dollars.

Global M&A activity reached a record high this calendar year as low borrowing costs and slow organic growth encouraged firms to expand through acquisitions. Against this backdrop, we advised our clients on 230 billion dollars of completed M&A transactions, and improved our U.S. market share by 200 basis points.

We also underwrote more than 520 billion dollars of deals across our equity, debt and lending businesses, up 19 percent from last year.

Debt issuance activity was also very strong as firms obtained funding in advance of a potential U.S. interest rate hike. We actively supported our clients financing needs, and had particularly strong results in our high yield business, growing our global market share by 120 basis points.

While equity origination revenue was down this year, it was against record results in 2014.

Global Markets had a very good year, with revenue up 15 percent. This business follows an originate-to-distribute model, and we leveraged our clients' strong issuance activity to drive trading revenue.

Credit spreads widened significantly between July and October. As a result, client activity, particularly in fixed income, declined considerably.

Equity trading continued to be strong, but was down compared to exceptionally high levels in the first half of the year on lower issuance activity.

Overall, Capital Markets had a strong year, and we continued to maintain our lead in Canada, grow our business in the U.S., and prudently expand our presence in Europe.

To wrap up, I'm very pleased with our record results this year. We've grown our core client businesses, refocused some of our underperforming businesses, and enhanced our digital capabilities for our clients.

AND, importantly we've continued to invest for the long-term – making the largest acquisition in RBC's history to accelerate our growth in the U.S. market.

We met all of our financial performance objectives and we remain committed to these same objectives going forward.

I am confident that we will continue to deliver long-term value to shareholders given the strength of our diversified business model, our strong execution capabilities, and our disciplined approach to risk.

I'll now turn it over to Janice to discuss our fourth quarter results.

JANICE FUKAKUSA. CHIEF ADMINISTRATIVE OFFICER AND CHIEF FINANCIAL OFFICER

Thanks Dave and good morning everyone.
Turning to slide 7, we had a record quarter with earnings of over 2.5 billion dollars, up 260 million dollars or 11 percent from last year.

Our results reflect solid earnings growth in Capital Markets and Personal & Commercial Banking and improved credit quality, partially offset by lower earnings in Investor & Treasury Services, Insurance and Wealth Management.

This quarter we benefitted from tax adjustments, mostly in Corporate Support. While tax adjustments are normal course, they were larger this quarter than we have experienced in recent years.

These adjustments reduced our effective tax rate for the fourth quarter and fiscal year 2015. If you add back these adjustments, our effective tax rate for fiscal 2015 would be at the low end of our target range of 22 to 24 percent.
We also had some tax adjustments in Capital Markets that related to our business mix in the current year which I will explain shortly when I review that segment's results.

Compared to last quarter, earnings increased 118 million dollars or 5 percent, largely due to the tax adjustments I just mentioned, as well as higher earnings in Insurance, partially offset by lower earnings in Investor & Treasury Services and Wealth Management.

This quarter our ROE was strong at 17.9 percent, although down from 19 percent last year, largely reflecting our capital build to fund our acquisition of City National, which closed on November 2.

I will also note that this quarter we incurred transaction costs of 23 million dollars after-tax related to the acquisition.

Turning to capital on slide 8. Our Common Equity Tier 1 ratio was 10.6 percent, up 50 basis points from last quarter reflecting strong internal capital generation and lower risk-weighted assets from effective balance sheet management. As an example, in Capital Markets we reduced securities inventory and derivatives in some trading portfolios. We've also increased the granularity of data to allow for the correct risk weighting under the advanced approach.

Looking ahead to Q1, we now expect that the closing of City National will impact our CET1 ratio by approximately 75 to 80 basis points, up slightly from our previous estimate largely due to the impact of foreign exchange translation on risk weighted assets.

Moving to the performance of our business segments starting on slide 9.

Personal & Commercial Banking reported earnings of over 1.2 billion dollars, up 119 million dollars or 10 percent from last year, and down 11 million dollars or 1 percent from last quarter. ***Canadian Banking*** reported earnings of over 1.2 billion dollars, up 17 million dollars or 1 percent from last year.

I'll remind you that last year's earnings were favourably impacted by net cumulative accounting adjustments of 40 million dollars after-tax.

Excluding these adjustments our Canadian Banking earnings were up 57 million dollars or 5 percent from last year, reflecting solid volume growth of 6 percent, including loan growth of 5 percent and deposit growth of 7 percent.

Our performance also reflects continued growth in fee-based revenue, as strong mutual fund asset growth resulted in higher mutual fund distribution fees, and volume growth drove higher credit card revenue.

Solid revenue growth was partially offset by higher technology and staff costs to support business growth. We also had lower spreads, largely in business lending, which continues to be highly competitive.

Sequentially, Canadian Banking earnings were down 12 million dollars or 1 percent. We continued to see strong volume growth across most businesses, and had lower PCL.

Our net interest margin was 2.65 percent, relatively stable from last quarter and down only one basis point.

These factors were more than offset by expense growth, largely due to higher marketing and technology costs to support business growth.
As I've said before, expenses in the fourth quarter are often seasonally higher due to the timing of marketing and other discretionary spend.

On a full-year basis our efficiency ratio was 44 percent, 20 basis points better than last year, and our operating leverage was marginally positive.

We remain focused on cost management and believe there's more we can do to drive further efficiencies in this segment.

Caribbean and U.S. Banking had earnings of 43 million dollars, up from a net loss of 59 million dollars last year reflecting lower PCL, and the benefit of cost management initiatives and foreign currency translation.

Sequentially, earnings were relatively flat.

Turning to slide 10, **Wealth Management** had earnings of 255 million dollars, down 30 million dollars or 11 percent on both a year-over-year and sequential basis.

This quarter we had lower transaction volumes reflecting lower client activity and fewer new issuances against a backdrop of unfavourable market conditions, which Dave discussed.

In addition, we had after-tax restructuring charges of 38 million dollars, largely related to the repositioning of our U.S. and International Wealth Management business, which includes the sale of RBC Suisse.

The restructuring program is largely complete, although we expect to incur additional costs in Q1 of approximately 20 to 25 million dollars.

Wealth Management assets under management and assets under administration were up 9 percent and 4 percent, respectively, over last year, due to net sales and capital appreciation, partially offset by the impact of business exits as part of our restructuring program.

Moving to **Insurance** on slide 11. Net income of 225 million dollars was down 31 million dollars or 12 percent from last year, largely reflecting the negative impact of a change in Canadian tax legislation which I have previously discussed.

Sequentially net income was up 52 million dollars or 30 percent due to favourable actuarial adjustments reflecting management actions and assumption changes resulting from our annual review, as well as lower net claims costs across most Canadian Insurance product lines.

Turning to slide 12. **Investor & Treasury Services** had earnings of 88 million dollars, down 25 million dollars or 22 percent from last year, and down 79 million dollars or 47 percent from last quarter.

As a reminder, this business provides asset services, custody, payments and transaction banking for clients, and also provides short-term funding and liquidity management for RBC. As Dave mentioned, credit spreads widened considerably during the fourth quarter and, as a result, we recognized mark-to-market losses on securities held in our treasury portfolio.

Our treasury portfolio is approximately 70 billion dollars in size. It is composed of high quality liquid assets with strong credit profiles and approximately 70 percent of the portfolio is held-for-trading. The losses in Q4 were relatively modest in the context of the overall portfolio.
So far in Q1, we are seeing a stabilization and slight improvement in spreads which should improve the performance of the portfolio this quarter.

Our client-focused businesses, particularly our foreign exchange business, performed well throughout the year, and contributed to record full-year results.

I'll also remind you that last quarter we aligned Investor Services' reporting period, and Q3 earnings included an extra month of results which added 28 million dollars to the segment's earnings.

Turning to slide 13, **Capital Markets** had a good quarter in a difficult market environment. Net income of 555 million dollars increased 153 million dollars or 38 percent from last year reflecting income tax adjustments related to the current year, strong trading revenue, and the positive impact of foreign exchange translation.

In addition, results last year included a 51 million dollar after-tax charge related to funding valuation adjustments and 46 million dollars after-tax of lower revenue and costs associated with our exit from certain proprietary trading strategies.

Sequentially, earnings were up 10 million dollar or 2 percent, reflecting lower variable compensation, income tax adjustments, and higher equity trading revenue, mostly offset by lower origination activity reflecting fewer client issuances and lower fixed income trading revenue due to unfavourable market conditions.

Let me briefly discuss the tax adjustments this quarter. Our tax accrual process is based on a number of assumptions we make throughout the year, including business mix. In Q4, as we had full-year earnings, our mix is known and we had a higher proportion of taxable income in Canada compared to the U.S., than we did in the prior year.

Since Canada has a lower income tax rate relative to the U.S., this contributed to the lower tax expense for Q4. I would point out that our full year tax rate of approximately 30 percent is in-line with our expected run-rate for 2015.

Before I turn it over to Mark, I would like to briefly discuss a few priorities for next year.
We continue to focus on managing the trajectory of expense growth against revenue growth in order to achieve full-bank operating leverage of 1 to 2 percent. Let me take a moment to talk about our approach.

At RBC, we've had an ongoing focus on driving cost efficiencies for over a decade. As we've continued to evolve and mature these capabilities, they are now part of our business as usual activities.

Our strategy is currently focused on three key themes:
First, we are reinvesting the client experience through digitization and process optimization. We have been investing in this area for a number of years, and, as a result, we have been able to grow volumes and enhance our strong client service while keeping FTE relatively flat.

Second, we are optimizing our business model by increasing the level of collaboration, globally and across segments, to achieve economies of scale. For example, in Europe we have created centers of expertise that now support all three of our business segments operating in the region: Wealth, Capital Markets and Investor and Treasury Services.

Third, we are simplifying our organizational and operational structures to make them more agile. As part of this initiative, we are running development workshops in which employees across business, IT and functional areas prototype a new product or system within 16 weeks.

There are both costs saving and revenue generation opportunities associated with these initiatives, as they enable a more agile, cost efficient and innovative organization.

ALSO, across all our businesses we are focused on balance sheet management to optimize capital allocation and improve our competitive position and returns.

I will point out that as a result of issuing equity to fund half of the purchase price of City National we expect Return on Equity dilution of approximately 1 to 2 percent in the short term. However, we have maintained our medium-term objective for ROE of 18 percent plus based on our confidence in building back up to that target level over time.

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

MARK HUGHES. CHIEF RISK OFFICER

Thank you Janice and good morning.

We are pleased with our fourth quarter credit and market risk performance. It reflects the diversification of our portfolios, both in terms of geography and industry, low interest rates, strong employment trends as well as our prudent risk management practices.

Turning to slide 15, provisions for credit losses on impaired loans of $275 million or 23 basis points this quarter were relatively flat sequentially as higher provisions in Capital Markets were largely offset by lower provisions in Personal & Commercial Banking.

Gross impaired loans decreased $94 million or 3 basis points this quarter largely due to lower impairments in Personal & Commercial Banking and a write-off in Capital Markets, partly offset by higher impairments in Wealth Management.

In Canadian Banking credit trends were stable. We had provisions of $228 million or 25 basis points, down $10 million or 1 basis point from last quarter due to lower provisions in commercial lending.

Gross impaired loans decreased $55 million from last quarter reflecting lower impaired loans in commercial lending and residential mortgages.

In Caribbean and U.S. Banking credit trends improved slightly this quarter with provisions down $7 million and gross impaired loans down $55 million reflecting higher collections.

Wealth Management's provisions were relatively flat though gross impaired loans increased $48 million sequentially due to a single account in International Wealth Management which is fully collateralized. We do not anticipate a provision will be required.

In Capital Markets, provisions increased $21 million sequentially spread across five accounts with two of these five accounts in the oil & gas sector, one in the U.S. drilling and services sector, and the other in the Canadian E&P sector.
Gross impaired loans decreased $32 million from last quarter, mainly due to a partial write-off of an account in the oil & gas sector.

Let me provide you with an update on our oil & gas exposure.

As you can see on slide 16, our drawn exposure to the oil & gas sector remained at 1.6% of RBC's total loan book, with our exposure to E&P companies down slightly from last quarter. The majority of this E&P portfolio is borrowing based facilities.

Over the past couple of months, we've been going through our fall redetermination and it is now largely completed.

The price deck we used for the redetermination was down 10 to 15% from the spring. Borrowing bases has been reduced on average 1% in Canada and 6% in the United States.
This has resulted in reduced credit availability for some clients, while others have remained flat or even increased due to asset acquisitions, incremental hedging, or the addition of further proven reserves to the borrowing base.

During the quarter, we added 8 new names to our energy watch list for closer monitoring.

While the energy watchlist has increased over the year, primarily as a result of our stress testing earlier in the year, our enterprise watchlist has been relatively stable as the number of clients have been removed from the list when loans are repaid or clients are upgraded.

Overall, our portfolio is performing as expected and we continue to work closely with our clients to help them manage through this sustained period of low oil prices.
Turning to slide 17, our Canadian retail portfolio remained stable, but we've noticed some early signs of stress in Alberta, particularly in communities that are more dependent on the oil & gas sector.

The unemployment rate in Alberta reached 6.6% in October, and while it remains slightly below the national average of 7%, it is up 2.2% from last year.

Our total retail portfolio in Alberta represents 16% of our total Canadian retail portfolio and is largely secured.

We've noticed a slight, and I would stress the word slight, upward trend in auto and credit card delinquencies in Alberta, and while they haven't translated into write-offs, we are monitoring the performances of these portfolios.
Combined these two portfolios account for less than 2% of our total Canadian retail portfolio.
In our Canadian credit card portfolio, provisions have steadily improved to 234 basis points, down 9 basis points sequentially.

In our small business portfolio, as we expect variability from quarter to quarter, we've seen a slight increase in provisions, mainly in Ontario.

Provisions in our personal portfolio remained stable from last quarter.

Our residential mortgage portfolio continues to perform well with provisions of 2 basis points this quarter, consistent with our historical performance.

Turning to slide 18.

Our portfolio is geographically diversified and our clients' credit profiles are strong and have remained stable over the past year. Also, many clients are committed to accelerated repayment plans, and the debt service ratio is low, reinforcing our confidence in our clients' ability to repay.

We've seen strong house price growth in a few markets, notably Vancouver and Toronto, driven by the short supply of single family homes coupled with strong demand. We are monitoring these markets closely.

The credit trends of our portfolios have generally remained stable and signs of stress remain isolated and manageable.

Turning to market risk on slide 19.

Global markets volatility had a considerable impact in the first half of the quarter, which resulted in six days of trading losses totaling $17.6 million.

In addition, due to the impact of a weaker Canadian dollar and higher equity market volatility, our average Value-at-Risk increased $4 million and our average stressed Value-at-Risk increased by $23 million from last quarter. So far in Q1, we've seen markets stabilize. I would note these VaR and stress VaR levels have reduced back again this quarter. In summary, our risk performance in Q4 and Fiscal 2015 has remained strong with metrics still reflecting a benign environment.

Looking ahead, recent market and economic headwinds continue to underpin a more cautious outlook.

Should oil prices remain depressed and the unemployment rate rise, we would expect credit provisions to reach more normalized levels in the 30 to 35 basis point range.

However, we do anticipate some positive impacts from low oil prices, a weaker Canadian dollar and our well-diversified portfolio should help offset some of the possible deterioration in our oil & gas loan book and retail loan book of oil-exposed provinces.

With that we'll open the lines for Q&A.

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 that 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 such as earnings and revenue excluding Corporate Support, earnings in Q2/2015 excluding a specified item related to the release of foreign currency translation adjustment (CTA) that was previously booked in other components of equity, as well as specified items related to the sale of RBC Jamaica previously announced in Q1/2014 and provisions related to post-employment benefits, restructuring charges in the Caribbean, Personal & Commercial Banking Q4 2014 earnings excluding net cumulative accounting adjustments, adjusted operating leverage, adjusted net interest margin and Capital Markets trading and geographic revenue excluding specified items, 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" section of our Q4/2015 Earnings Release and 2015 Annual Report.

Definitions can be found under the "Glossary" sections in our Q4/2015 Supplementary Financial Information and our 2015 Annual Report.