ROYAL BANK OF CANADA THIRD QUARTER RESULTS CONFERENCE CALL WEDNESDAY, AUGUST 26, 2015

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Additional information about these and other factors can be found in the Risk management and the Overview of other risks sections in our 2014 Annual Report and in the Risk management section of our Q3/2015 Report to Shareholders.

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DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Good morning everyone and thanks for joining us today.

RBC had a solid quarter with net income of over 2.4 billion dollars, up 4 percent from last year, or 2 percent, excluding the prior year's loss related to the sale of RBC Jamaica.

Compared to last quarter, earnings were down 1 percent, but were up 3 percent excluding the foreign exchange gain in Q2.

I would highlight that this morning we announced a 2 cent, or 3 percent increase to our dividend, bringing our quarterly dividend to 79 cents a share.

We had underlying strength across most of our segments, while maintaining a strong credit and capital position, and I believe these results demonstrate the strength of our diversified model and solid execution in an increasingly uncertain environment.

Before I provide my perspective on the performance of our business segments, let me share some views on the Canadian economy, oil prices, and the housing market.

Starting with the economy. In recent months we've seen mixed economic data and weaker than anticipated growth, which led the Bank of Canada to cut interest rates for a second time this year.

Looking ahead, we still forecast modest growth in Canada in the second half of the year, as the strengthening U.S. economy and lower Canadian dollar are expected to drive export growth, and consumer spending continues to be steady.

Declining oil prices is causing economic uncertainty, particularly in the west, with lower levels of investment. As we expected, low oil prices are challenging for some of our clients. This quarter we saw an uptick in impairments, and Mark will discuss how we are managing our lending portfolios in this environment.

Turning to the housing market.

It is important to understand that Canada is a country of many regional housing markets, each of which has its own dynamics.

The greater Toronto and Vancouver regions are continuing to see strong levels of activity. The short supply of single family homes in both cities coupled with strong demand fueled by household formation, including net immigration, has driven strong price growth. In July alone, home prices accelerated by 11 percent and 9 percent year-over-year in Vancouver and Toronto, respectively, the fastest pace of growth since 2010.

We're watching these markets very closely, given price growth and the persistence of tight inventory. We continue to actively monitor key variables including sales to listings, rental capacity in the market, affordability and inventory level, and over the years we've enhanced our lending policies and property valuation strategies.

Offsetting some of this growth is lower activity in oil-exposed regions. It's important to remember that many areas of Alberta are coming off several years of hyper-growth, so the recent slow-down is in part a return to more normal growth levels, but we recognize these markets remain vulnerable to lower oil prices.

In most other Canadian markets we're seeing generally balanced conditions, and fundamentally the Canadian housing market continues to be supported by strong trends in employment, household income, population growth, and low interest rates.

What gives me confidence during this period of market and economic uncertainty is that RBC is diversified across different businesses, clients segments and geographies, has strict risk and cost discipline, and is backed by a strong capital position.

With this foundation, we are positioned to continue executing on our key strategic priorities. For example, we're working towards closing the acquisition of City National later this year, which increases our leverage to a strengthening U.S. economy and creates a platform for long-term growth.

Also, as we've been heavily investing in technology for the past five or six years, we're focused on leveraging these investments to drive further efficiencies, deliver a differentiated experience and generally make it easier for our clients and employees to do business with us.

Turning to the performance of our business segments.

Canadian Banking had a record quarter, with earnings up 5 percent from last year. Let me highlight a few key drivers of our results.

First, we had strong overall volume growth of 6 percent, with particular strength in our mortgage business, as balances grew over 6 percent from last year.

Both the seasonality of the summer mortgage season and historically low interest rates spurred a higher level of market activity for new originations and refinancing. In addition, the simplicity of our Employee Pricing campaign coupled with employee referrals helped drive sales.

This quarter we also saw clients switch out of unsecured lines of credit into mortgage products to take advantage of lower rates, which also contributed to mortgage growth.

With this growth, we've remained disciplined from a risk perspective. I would point out that since we originate mortgages through our proprietary channels we're able to work directly with clients to help them manage debt and we're seeing evidence of conservatism as many clients are committing to accelerated repayment plans and paying down lines of credit.

We also saw strong growth in business financial services, with business loans up 9 percent from last year and business deposits up 11 percent. This is a competitive space; however, we are the market leader in business financial services in Canada, and continue to deepen our client relationships by offering personalized services and a full product suite.

Another driver of Canadian Banking's results was our continued momentum in mutual funds and cards.

Our mutual fund assets grew by 13 percent over last year, reflecting the strength and breadth of our distribution network, and we're well positioned to capture the increasing client demand for saving and investment products.

Growth in our cards business is being driven by our ongoing commitment to delivering a strong value proposition to our clients. For example, we've enhanced our redemption options for clients, including our very popular Payback with Points option. To date this year, we've seen the number of new clients using our Avion and WestJet premium cards increase by 18 percent.

Lastly, I'm pleased with how the business has continued to manage costs and leverage investments in technology to further improve our industry-leading efficiency ratio. For example, now virtually all of our mortgages are processed through our new system, which has automated the end-to-end origination process from sales and adjudication through to fulfillment.

Turning to Caribbean Banking, we had a particularly strong quarter. Our results reflect improved credit performance, progress from our restructuring activities and the benefit of a stronger U.S. dollar. Even as the region continues to experience economic headwinds, we believe we can continue to deliver solid core operating performance.

Moving to Wealth Management.

Global Asset Management, our most profitable Wealth Management business, continues to perform well. Solid net sales this quarter drove AUM growth of 12 percent from last year, despite uncertain market conditions. We continue to invest in this business by attracting experienced portfolio managers and by enhancing our infrastructure to sustain our leading position in Canada and extend our global reach.

In Canadian Wealth Management, we hold the number one position in the high net worth segment. We continue to recruit experienced and high producing investment advisors to further grow market share, with fee-based assets per advisor over two times our Canadian peer average. Our client relationships go beyond traditional investments as we provide a more holistic approach to wealth management.

As we've discussed, we've been particularly focused on business owners, and our partnership with Canadian Banking is enabling us to identify and help these clients plan for succession, from finding a buyer, to financing the transaction and managing their new wealth.

We plan to expand succession planning in the U.S. as a large portion of our U.S. Wealth Management clients are business owners. Through the acquisition of City National we'll be able to offer clients a broader suite of products.

Moving next to Insurance. We continue to focus on deepening relationships and simplifying products and processes, making it easier for our clients to do business with us. As a result, we continue to gain new clients and we are seeing greater success in cross-selling other Insurance products.

Turning to Investor & Treasury Services. As Janice will explain, results were elevated in part because we aligned reporting periods in Investor Services, and fundamentally the growth in this business continues to be driven by ongoing focus on our client's needs as well as exercising cost discipline.

In fact, RBC is consistently recognized for its excellent customer service, and this quarter we received the custody industry's top award for customer service when we were named Fund Administrator of the Year – Developed Markets by Global Investor/ISF magazine.

Turning lastly to Capital Markets. We had a solid quarter, particularly in light of record results last year which included two large trades.

Corporate and Investment Banking had record revenue of over 1 billion dollars, mainly driven by strong M&A activity in the U.S. and Europe. This achievement demonstrates our success in growing the business by focusing on traditional investment banking and origination activities, as well as our diversification across products, industry sectors and geographies.

Offsetting this strength was lower trading revenue reflecting the challenging markets this quarter. And as you've seen, global capital markets have continued to be volatile driven by concerns related to China and a continued decline in commodity prices.

Looking forward, I remain confident in our Capital Markets strategy.

We are maintaining our leading position in Canada.

Our U.S. business continues to drive growth, and accounts for almost half of our Capital Markets earnings. As a top 10 player in the U.S. we're well positioned to capitalize on the improving U.S. economy.

AND, in Europe, while the economic environment remains challenging, I'm encouraged by the increase in client mandates as it demonstrates RBC's strengthening market position.

To wrap up, it was a solid quarter. I'm pleased with our year-to-date performance with earnings up 11 percent from last year, or 8 percent on an adjusted basis, and we remain on track to meet our performance objectives.

There is no question that we're operating in an uncertain economic environment. However, given our diversified business model, our market leading position in Canada, a deepening platform in the U.S., and a growing presence in Europe and other key markets, I'm confident we can continue delivering shareholder value by capitalizing on opportunities created by the changing market and economic environment.

Before I turn the call over to Janice, I want to recognize George Lewis.

As you know we recently announced that Doug Guzman will succeed George Lewis as Group Head of our Wealth Management and Insurance businesses on November 1st.

George will continue to play a key role in Global Asset Management, but given that this will be George's last quarterly call, I wanted to take this opportunity to thank him for his contributions.

Under his leadership, we established the number one position in Canadian wealth and asset management, grew to become the fifth-largest wealth manager globally, and greatly expanded and diversified our asset management business globally through some very challenging market conditions.

So, thank you George, and with that, I will turn the call over to Janice.

JANICE FUKAKUSA. CHIEF ADMINISTRATIVE OFFICER AND CHIEF FINANCIAL OFFICER

Thanks Dave and good morning everyone.

As Dave said it was a solid quarter with earnings of over 2.4 billion dollars, up 97 million dollars or 4 percent from last year. Excluding last year's loss related to the sale of RBC Jamaica, earnings were up 57 million dollars or 2 percent.

Compared to the last quarter, earnings decreased 27 million dollars or 1 percent. Excluding last quarter's foreign currency gain, earnings were up 81 million dollars or 3 percent.

Our results reflect record earnings in Personal and Commercial Banking, including solid growth in Canadian Banking and improved results in the Caribbean, as well as continued growth in Investor and Treasury Services. As Dave noted Capital Markets earnings were down from exceptionally strong levels last year and last quarter and reflecting challenging market conditions in the quarter.

Turning to capital on slide 7. Our Common Equity Tier 1 ratio of 10.1 percent increased 10 basis points from last quarter. Strong internal capital generation was partially offset by higher risk-weighted assets and the impact of a weakening Canadian dollar, particularly versus the British pound and the euro as we hedge the bulk of our US dollar exposure.

In addition, our capital ratio was positively impacted by a higher discount rate, which decreased our pension obligations and increased our pension plan assets.

I would note that our Common Equity Tier 1 ratio has increased 60 basis points from last year as we've continued to build capital in anticipation of closing the announced acquisition of City National in our first fiscal quarter of 2016.

Moving to our business segment results starting on slide 8.

Personal & Commercial Banking reported record earnings of over 1.2 billion dollars, up 143 million dollars or 13 percent from last year, and up 81 million dollars or 7 percent from last quarter.

Canadian Banking reported record earnings of over 1.2 billion dollars, up 54 million dollars or 5 percent from last year. Our results reflect solid volume growth of 6 percent, including loan growth of 5 percent and deposit growth of 7 percent.

Our performance also reflects 10 percent growth in fee-based revenue, as net new sales and capital appreciation drove higher mutual fund distribution fees. In addition, growth in credit card balances and purchase volumes drove higher credit card revenue.

Our solid revenue growth in Canadian Banking this quarter was partially offset by higher costs to support business growth, as well as lower spreads, largely in business lending which continues to be highly competitive.

Sequentially, Canadian Banking earnings were up 48 million dollars or 4 percent, largely due to additional days in the quarter.

Strong fee-based revenue growth and solid volume growth across most businesses also contributed to the increase. These factors were partially offset by higher costs to support business growth and higher PCL, which Mark will explain.

This quarter our net interest margin in Canadian Banking was 2.66 percent, up 2 basis points sequentially, or flat when you exclude last quarter's cumulative accounting adjustment.

Our efficiency ratio improved 30 basis points over last year to 43.5 percent, and we generated positive operating leverage of 0.7 percent, demonstrating our ongoing focus on managing the trajectory of revenue growth against expense growth.

Caribbean and U.S. Banking had earnings of 42 million dollars, up 89 million dollars from last year. Excluding last year's loss related to the sale RBC Jamaica, earnings were up 49 million dollars from last year reflecting lower PCL, and the benefit of cost management initiatives and foreign currency translation.

Sequentially, our earnings were up 33 million dollars as last quarter included a 23 million after-tax loss on the sale of RBC Suriname.

Turning to slide 9, Wealth Management had earnings of 285 million dollars, flat from last year. We had higher earnings from growth in average fee-based client assets across all businesses. Assets under management and assets under administration were up 14 percent and 11 percent, respectively, over last year, due to FX, net sales and capital appreciation.

This growth was mostly offset by lower transaction volumes reflecting lower client activity and fewer new issuances due to uncertain market conditions this quarter.

In addition, our earnings were negatively impacted by a change in fair value of our U.S. share-based compensation plan.

Sequentially, earnings were up 14 million dollars or 5 percent as the prior quarter had provisions for credit losses and higher restructuring costs related to the repositioning of our U.S. and International Wealth Management businesses. We are about three quarters through the expected costs associated with this, and expect to be largely finished by the end of the fiscal year.

Moving to Insurance on slide 10. Net income of 173 million dollars was down 41 million dollars or 19 percent from last year, largely reflecting the negative impact of the tax change that I've previously discussed, as well as higher net claims costs in our life retrocession business.

Sequentially net income was up 50 million dollars or 41 percent mainly due to lower net claims costs, the favourable impact of investment related activities on the Canadian life business, and higher earnings from a new U.K. annuity contract.

Turning to slide 11, Investor & Treasury Services had earnings of 167 million dollars, up 57 million dollars or 52 percent from last year.

Previously Investor Services reported earnings on a one-month lag. Effective this quarter, we aligned their reporting period, and therefore the third quarter includes four months of results, adding 28 million dollars to the segment's earnings.

Growth from last year was also driven by higher earnings from our foreign exchange businesses and increased custodial fees, partially offset by lower funding and liquidity revenue reflecting widening credit spreads.

Compared to last quarter, earnings were up 8 million dollars or 5 percent driven by the additional month of Investor Services results, partially offset by lower funding and liquidity revenue.
Capital Markets had a solid quarter. Net income of 545 million dollars decreased 96 million dollars or 15 percent from a record last year, and was down 80 million dollars or 13 percent from a strong Q2.

As Dave mentioned, we have a strong and growing presence in the U.S. We benefited from foreign currency translation which increased earnings by 37 million dollars compared to last year. At the same time, our effective tax rate has increased as the U.S. is a higher tax jurisdiction. Markets were more challenging in Q3, resulting in lower fixed income and equity trading, and lower equity origination activity. I'll also remind you that last year's results included two trades which added approximately 100 million dollars to trading revenue.

While trading was down, we had strong growth in corporate and investment banking, driven by higher M&A activity in the U.S. and Europe, and higher lending revenue, mainly in the U.S. and Canada.

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

MARK HUGHES. CHIEF RISK OFFICER

Thanks Janice and good morning.
Turning to slide 14, our credit quality remained strong this quarter as credit trends stayed near historic lows reflecting our strong risk management, low interest rates and strong employment trends. However, given the headwinds Dave highlighted, our outlook remains cautious.

Provisions for credit losses on impaired loans of $270 million or 23 basis points this quarter, remained near historical lows, and decreased by $12 million or 2 basis points from last quarter.

This decrease mainly reflects lower provisions in Wealth Management and in Caribbean and U.S. Banking, which were partially offset by higher provisions in Canadian Banking.

Wealth Management's provisions were down $32 million sequentially, as last quarter included a provision on a single account in our International Wealth Management business. We had no new provisions this quarter.

In Caribbean and U.S. Banking, provisions were down $4 million from last quarter reflecting stable credit trends.

In Capital Markets, provisions were flat sequentially at $15 million, and largely related to one exploration and production account in Canada.

In Canadian Banking, we had provisions of $238 million or 26 basis points, up $26 million or 1 basis point from last quarter. I would point out that the increase was mainly due to the reversal of a provision on a single account in our commercial lending portfolio last quarter.

Turning to slide 15, our Canadian retail portfolio remains stable.

Provisions in our credit card portfolio remained low at 243 basis points, down 19 basis points sequentially primarily due to seasonality.

In our small business portfolio, while we expect variability from quarter to quarter, we've seen a decline in provisions over the last few quarters.

Provisions in our personal portfolio remained stable from last quarter.

Our residential mortgage portfolio continues to perform well with provisions of 1 basis point this quarter, consistent with our historical performance. As seen on slide 16, this portfolio benefits from broad geographic diversification and a strong loan-to-value of 55% on our uninsured mortgages.

Turning to gross impaired loans, as highlighted on slide 17, we saw an increase of $234 million this quarter, of which approximately 35% was due to FX translation.

Capital Markets gross impaired loans increased by $177 million largely related to four accounts, two of which were exploration and production companies, one in Canada, one in the U.S. Only one account required to be provisioned for this quarter.

Wealth Management gross impaired loans increased by $39 million related to a single account in our International Wealth business in the British Isles

Personal and Commercial Banking gross impaired loans increased by $18 million mainly related to two accounts in Canada, both unrelated to the oil and gas sector.

To summarize, while our gross impaired loans increased this quarter, our total oil and gas portfolio accounts for only 8% of total gross impaired loans.

Turning to slide 18, let me provide you with an update on our oil and gas exposure.

Our drawn exposure to the oil and gas sector represents 1.6% of RBC's total loan book, up marginally from last quarter mainly due to FX translation. The composition of this portfolio remains unchanged with approximately 65% of loans to exploration and production companies.

Our undrawn exposure to oil and gas has increased from last quarter, largely related to FX translation, and a few new commitments. The undrawn book continues to be two-thirds investment grade and the aggregate book is approximately 50% investment grade.

As the price of oil has continued to decline we've updated our stress scenarios.

From a wholesale perspective we stress test on a name by name basis. Our most recent scenario assumes a $35 oil price for the remainder of 2015 and uses the forward price curve for 2016, which currently averages $45. Based on this scenario we're now monitoring a handful of additional names compared to our prior scenarios.

If the price of oil stays at current levels we could see an uptick in wholesale provisions. However, we have seen a number of companies raise capital, delay capital spending, or cut dividends which should help mitigate some of the impact.

One factor we will keep a close eye on is this Fall borrowing base redetermination. Our price deck used for our Spring redetermination expected the average price to be closer to $53 in 2015, with small increases to the mid-$60 over time. Should oil prices remain below $45 we would expect to see further challenges for these clients as our price deck would be reflecting these further depressed prices.

Should this occur, our first impact will be an increase in gross impaired loans. I would stress that this may not play out in immediate increases in PCL as for most of these borrowing base financings, we are at the top of the deck stack. We take into account a view on loss in the event of default before we take provisions.

Turning to our retail portfolios, even with delinquencies near historical lows, we are watching for changes in employment trends and consumer behaviour, as they are key leading indicators. In particular, we've seen the unemployment rate increase from 4.5% to 6.3% in Alberta, although it still remains below the national average of 6.8%.

Delinquencies remain near historical lows and we have not seen an increase in delinquencies for Canada, but have noticed a slight uptick this quarter in oil-exposed provinces. The increase is insignificant and it's too early to say if this is a trend.

We've stressed the retail and commercial portfolio across a number of variables including higher unemployment rates, a decline in house prices, and slower growth across the country.

Overall, under these stressed scenarios we continue to believe our PCL ratio will remain within our risk appetite of 40 to 50 basis points through the cycle.

Putting aside the stress scenarios and given what we are currently seeing across our portfolios, we could envisage our results moving from the benign to more normalized levels.

Let me remind you, the 23 to 26 basis points we have experienced over recent quarters represents an historically benign credit environment. In a more normalized PCL environment, we would see amounts in the 30-35 basis points range.

Turning to market risk.

This quarter, while we saw fairly volatile market conditions, our average Value-at-Risk decreased by $3 million and our average stressed Value-at-Risk decreased by $14 million quarter over quarter. It is worth noting that both remain low at $31 million and $91 million respectively relative to our revenue stream.

In addition, we had no days of trading losses this quarter. In fact, we have had no trading losses since January 2015 as shown on slide 20.

To conclude, while recent market and economic headwinds underpin a more cautious outlook, I am pleased with our overall credit and market risk performance which benefited from the diversification of our portfolios, both in terms of geography and industry, as well as our prudent risk management practices.

With that operator, 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, 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 Q3/2015 Report to Shareholders and 2014 Annual Report.

Definitions can be found under the “Glossary” sections in our Q3/2015 Supplementary Financial Information and our 2014 Annual Report.