# ROYAL BANK OF CANADA FIRST QUARTER 2013 RESULTS CONFERENCE CALL THURSDAY, FEBRUARY 28, 2013

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## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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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 Q1 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 Q1 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 Q1 2013 Report to Shareholders.

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## GORDON M. NIXON, PRESIDENT & CEO

As you can see from our results on slide 3, RBC is off to a strong start in 2013. We earned over 2 billion dollars this quarter, up 12 percent from last year and up 8 percent from last quarter. And, our earnings per share were a dollar thirty six, up 11 percent from last year. These results were driven by record earnings in Personal and Commercial Banking and Wealth Management, as well as a strong quarter in Capital Markets. I am also pleased to report that we announced a 3 cent or 5 percent increase to our dividend, bringing the quarterly dividend to 63 cents. This is our fourth increase in two years, representing a 26 percent increase since the first quarter of 2011.

This quarter we delivered a strong return on equity of 19.6 percent, even with the higher capital requirements of Basel III, which is now effective for all Canadian banks. Our "all-in" Basel III

Common Equity Tier 1 ratio of 9.3 percent is well above both our internal and regulatory targets, which Janice will expand on in her remarks. Overall, our first quarter results clearly demonstrate the strength of our diversified business model and our ability to manage costs while we extend our leadership position in Canada and selectively grow outside the domestic market.
Q1 2013 Segment Performance / Achievements

Let me now turn to the performance of our businesses. Personal and Commercial Banking had a record quarter, with earnings of 1.1 billion dollars driven by continued momentum in Canadian Banking due to solid volume growth, relatively stable margins and strong cost discipline. There is no question that the Canadian banking industry is facing slightly slower growth as a result of slower mortgage demand. Notwithstanding these forces, we believe we can continue to achieve or exceed our objective of a 25 percent growth premium to the market for a number of reasons.

First, the size and scale of our distribution network – including our strong mobile sales force – allows us to reach more clients at their convenience, and we continue to develop innovative solutions to extend our sales power. For example, our new credit card partnership with Target Canada will provide a great opportunity to broaden our client reach through their network of over 120 stores, which is scheduled to begin operating this spring.

Second, is the breadth and quality of our product offerings. We have a strong commercial franchise, excellent financial planning and investment capabilities, and an extensive cards portfolio. With the acquisition of Ally Canada, we now have a leadership position in Canadian auto finance – an attractive industry and one that we know well. Following the close on February 1st we combined Ally Canada's team with RBC's to form RBC Automotive Finance and have made some changes to the business, all of which we factored into our projections at the time of announcement. Third, RBC has a proven ability to cross-sell more effectively than of our Canadian peers, and we see opportunities to provide additional banking products to our existing customer base, as well as new ones including customers we have gained through our Shoppers Drug Mart partnership.

Finally, as seen in our results, we continue to control costs and drive efficiencies and we have a number of initiatives underway to continue managing the trajectory of expenses against revenue growth. One of these initiatives is our retail credit transformation project which you've heard about in the past which is close to completion. This significant project allows us to automate our end-to-end back office capabilities so that we can process mortgage applications more efficiently. This has already resulted in significant cost savings, has freed up our sales staff time, and has improved the customer experience. We intend to roll this system out to a number of other consumer credit products over the coming years. Turning to the Caribbean, where we face ongoing challenges from the economic environment. We are aggressively managing the business for stronger performance in 2013 and are refining our operating model to improve efficiencies and enhance our competitiveness.

Moving to Wealth Management, we delivered record results this quarter. Our leadership position in both Canadian Wealth Management and Global Asset Management continued to deliver strong results and provide a solid foundation of growth. For example, we continued to extend our number one position in the high net worth segment in Canada, and our strength in asset management was again evidenced by the fact that we won the top Lipper Awards for the seventh consecutive year and we were also named Fund Company of the Year by Morningstar. Within asset management, we are also pleased with the momentum we are seeing in BlueBay which has increased its assets under management by 37 percent in 2012 to over 50 billion dollars, an all-time high. In our U.S. Wealth Management business, we are seeing some good progress as fee-based assets reached record levels and transaction volumes finally started to increase. We remain focused on increasing advisor productivity and efficiency to capitalize on improving market conditions. Internationally, we are building on our global leadership in trust solutions to grow our high- and ultra-high net worth client base as well as positioning RBC Wealth Management for long-term growth in key markets.

Moving to Insurance. This business continues to make a solid contribution and we believe our focused strategy serves to differentiate our performance. First, we have broad and diversified product offerings to meet the insurance needs of our customers. In the life and health segment, we focus on less capital intensive products, such as term life and disability. Second, our distribution strategy is premised on driving efficiencies by increasing sales through our lower-cost proprietary channels and innovating to make it easier for customers to do business with us. As one example, we recently expanded our alliance with Shoppers Drug Mart to offer exclusive co-branded travel insurance on the Shoppers website.

Turning to Investor and Treasury Services. It's been six months since we've had full ownership of RBC Investor Services and we have made solid progress towards integrating the business. As I mentioned last quarter, we are focused on strengthening the business model to adapt to the challenging operating environment, including aggressively managing costs and streamlining operations to drive efficiencies.

Finally, moving on to Capital Markets. We had a strong quarter of earnings, with significant growth in corporate and investment banking, and strong trading reflecting favourable market conditions this quarter. These results demonstrate the successful execution of our strategy, including a shift to more traditional corporate and investment banking activities along with repositioning our trading businesses to focus on origination. A key to this strategy has been to strategically extend our balance sheet to deepen client relationships. Since 2010, our loan book has increased by an average of twenty five percent each year, and we've seen a commensurate increase in lending revenue, from approximately 800 million dollars in 2010 to over 1.3 billion dollars last year. I would also point out that pre-crisis we took our loan book down considerably so that even today our loans outstanding are quite low on a relative basis. An expected outcome of this growth in our loan book is a moderate increase in provisions. However, I think it is important to emphasize that we are not changing our risk practices. We are satisfied with the attractive returns we are able to generate from this business, and we expect our normalized provisions to be within our target range which Morten will discuss in his remarks.

Turning to our results, our momentum is particularly strong in the U.S. The majority of our loan book growth has originated from the U.S., we are gaining market share, AND are actively involved in a number of high profile mandates. For example, RBC financed KKR's acquisition of Alliant Insurance Services, the largest specialty focused insurance brokerage firm in the U.S. We also advised and financed Gulf Oil's acquisition of Houghton International, which involved close teamwork between our U.S. and European offices as well as strong collaboration with Wealth Management. And more recently, we acted as financial advisor in support of the buyout of Dell – one of the largest leveraged buyouts on record.

In Canada, we are maintaining our leading market share and continuing to manage major transactions for our long-term clients. For example, Encana recently entered into a joint venture with PetroChina and RBC was sole financial advisor on the transaction.

In Europe, we have a focused strategy of competing in areas where we have proven capabilities and through the build out of our coverage model in recent years, and we have developed strong client relationships. While activity levels in this region remain weak, we continue to be a partner of choice for clients. For example, RBC recently lead an offering for the U.K.'s Debt Management Office - our sixth transaction with this client for a total of nearly 32 billion sterling.
As a testament to our successes, we were ranked by Dealogic as the 10th largest global investment bank by net revenue in 2012 – up two spots from 2011 – and making it the first time we made the top ten list for a full calendar year.

To conclude, our results this quarter were very strong and demonstrate the earnings power of RBC across all the businesses driven by our leading market positions, diversified business mix, strong capital position and our prudent focus on managing risks and costs. Notwithstanding the ongoing industry headwinds, we are confident about our financial performance and competitive positions and our ability to deliver against our objectives in 2013.

With that, I'll now turn it over to Morten.

## MORTEN FRIIS, CHIEF RISK OFFICER

Starting with credit on slide 7. Provisions for Credit Losses on impaired loans were 349 million dollars this quarter, down 13 million dollars over last quarter or 2 basis points to 35 basis points. This decrease was largely driven by lower provisions in Canadian Banking, partially offset by higher provisions in Capital Markets. Within our Canadian Banking portfolio, provisions were 213 million dollars, down 56 million dollars over last quarter, or 8 basis points to 26 basis points. This decrease reflects lower provisions in our business lending and residential mortgage portfolios.

Provisions on residential mortgages of 1 basis point are consistent with our historic performance. Overall, provisions of 26 basis points on our Canadian Banking portfolio are at a historic low reflecting very strong credit performance across a number of products, including Cards.

In the Caribbean, provisions on impaired loans were 150 basis points or 27 million dollars, the same level as last quarter. While credit quality has shown some signs of stabilization, better performance of this portfolio continues to be dependent on more sustained improvements in the economic environment in the region.

With respect to Capital Markets, provisions were 109 million dollars, or 82 basis points, up 46 million compared to the prior quarter, related to a couple of accounts, including one corporate account in the U.K. While we expect loan loss provisions within our wholesale portfolio to show some degree of variability from quarter to quarter, this quarter's provisions fall at the higher end of our expected range. We manage the corporate loan book on the basis that a normal run rate of provisions for this book is in the range 50 basis points.

Overall, we remain comfortable with the quality of the wholesale loan book. Impairment levels are low and the number of watch-list accounts and accounts with our Special Loans group remains near historic lows. Approximately 70 percent of the authorized portfolio is investment grade and is well diversified. It is also governed by a structured and disciplined underwriting process with strict limits on risk concentrations.

Turning to market risk, average Market Risk VaR was 43 million dollars, and average Stressed Value at Risk was 78 million dollars, with both remaining stable compared to last quarter. During the first quarter we had no days with net trading losses.

With that, I will turn the presentation over to Janice.

## JANICE FUKAKUSA, CHIEF ADMINISTRATIVE OFFICER AND CHIEF FINANCIAL OFFICER

Turning to slide 11, we had a strong first quarter, with earnings of over 2 billion dollars, up 12 percent from last year, and 8 percent from last quarter.  As Gord said, we had record earnings in Personal & Commercial Banking and Wealth Management and a strong quarter in Capital Markets.

Our results continue to demonstrate our ability to drive top line growth while prudently managing expenses. I would note that expenses other than variable and stock-based compensation were up approximately 6 percent from last year and our full ownership of RBC Investor Services contributed to more than half of this increase. Overall it was a clean quarter with no items of note.

First, let me briefly comment on our capital as this is our first year under Basel III. As noted on slide 12, our “all-in” Basel III Common Equity Tier 1 ratio at the end of the first quarter was 9.3 percent. The key difference compared to last quarter’s estimated pro forma ratio of 8.4 percent is the lower level of Risk Weighted Assets due to the delayed regulatory implementation of the credit valuation adjustment, or CVA. Excluding CVA, our ratio was up approximately 30 basis points, driven primarily by strong internal capital generation and slightly offset by the final quarter of IFRS phase-in. I would also note that the capital impact of our acquisition of Ally Canada, which closed February 1st, will be reflected in the second quarter and is estimated at 40 to 50 basis points.

Turning to the performance of our business segments on slide 13. Personal and Commercial Banking earned a record 1.1 billion dollars, up 108 million dollars or 11 percent from last year, driven by solid volume growth of 7 percent across all Canadian Banking businesses; with particular strength in personal and business deposits and residential mortgages. Sequentially, earnings were up 86 million dollars or 8 percent, reflecting lower PCL, seasonally lower marketing and professional costs as well as solid volume growth in Canadian Banking.

Looking at our Canadian Banking business, margins were down only 1 basis point from the prior quarter. However, we expect margins will remain under pressure in 2013, given the low interest rate environment, slowing consumer lending and the competitive pressures. We achieved positive operating leverage of 2.6 percent, and continued to make progress on our efficiency ratio which improved 120 basis points from the prior year to 43.7 percent. We believe we can continue to generate positive operating leverage and drive our efficiency ratio lower; although, we do anticipate quarterly fluctuations due to the seasonality of expenses and the timing of investments.

Turning to Wealth Management on slide 14. We earned a record 233 million dollars this quarter, up 45 million dollars or 24 percent from last year and up 26 million dollars or 13 percent sequentially. Favourable capital market conditions and market share gains drove higher average fee based client assets, increased transaction volumes and semi-annual performance fees.

Moving to Insurance on slide 15. Net income of 164 million dollars was down 26 million dollars or 14 percent compared to last year as last year included net investment gains and a new U.K. annuity reinsurance contract. Compared to the prior quarter, earnings were down 30 million dollars or 15 percent, mainly due to higher reinsurance and disability claims costs.

Turning to Investor and Treasury Services on slide 16. Earnings of 80 million dollars were down 3 million dollars from last year, as our additional 50 percent ownership of RBC Investor Services and higher results in this business were offset by lower funding and liquidity revenue. Earnings were up 8 million dollars or 11 percent from last quarter, primarily reflecting increased foreign exchange revenue and higher custodial fees.

Turning to Capital Markets on slide 17. Our earnings of 464 million dollars were up 93 million dollars or 25 percent from last year. We had strong client growth in our U.S. lending and loan syndication businesses and higher M&A activity. Compared to last quarter, net income was up 54 million dollars or 13 percent, driven by higher fixed income trading, reflecting increased client activity and favourable market conditions, as well as higher advisory and loan syndication activities. Our results this quarter were negatively impacted by a higher tax rate reflecting a greater proportion of U.S.-based earnings and higher provisions, which Morten discussed.
To wrap it up, we are very pleased with our performance this quarter. As Gord noted, despite ongoing industry headwinds, we believe we are well positioned.