ROYAL BANK OF CANADA
FIRST QUARTER RESULTS
CONFERENCE CALL
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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 2015 Annual Report, as updated by the Overview and outlook section in our Q1/2016 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 the Overview of other risks sections in our 2015 Annual Report and in the Risk management section of our Q1/2016 Report to Shareholders.

Information contained in or otherwise accessible through the websites mentioned does not form part of these speakers' notes. All references in speakers' notes to websites are inactive textual references and are for your information only.

DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Good morning everyone.

RBC had a solid first quarter in an operating environment that was challenging for both us and some of our clients.

We delivered earnings of 2.4 billion dollars, flat from a strong first quarter last year.

Our results reflect strong execution of our growth strategy.

We continued to build our core client franchises while managing expense growth.

We closed City National, which had robust first quarter results and, even after making the largest acquisition in RBC's history, we maintained a strong CET1 ratio of 9.9 percent through effective balance sheet management.

And I am pleased to report that this morning we announced a 2 cent, or 3 percent increase to our dividend, bringing our quarterly dividend to 81 cents a share.

Before I comment on our business segment performance, let me share some views on the macro environment.

Market conditions were volatile during the quarter given concerns about the outlook for global growth and the fluctuating price of oil.

These periods of volatility are challenging for our clients, but I would highlight that most major economies are expected to grow this year.

In Canada, we continue to believe that pressure from low oil prices will be largely contained to oil-exposed regions and that strength in other regions will support modest GDP growth this year. In fact we've started to see the economic benefits of low oil prices and a weaker Canadian dollar on manufacturing and export activity.

There is no question that the persistently low oil prices are tough for clients in the affected regions, and are driving an increase in credit provisions in our portfolio. It's important to note the increase is off historic lows we've experienced in recent years and further, I want to highlight that we've managed through many cycles and we plan our business based on expected losses rather than historic lows, and our experience this quarter was within the range of outcomes we had planned for.

Turning to the performance of our business segments. It was a record quarter for Personal and Commercial Banking.

Canadian Banking performed well, notwithstanding the low interest rate environment and challenges in oil-exposed regions.

We had solid volume growth across most products.

We extended our market leading position in residential mortgages, and balances were up 7 percent from last year as clients continued to take advantage of historically low interest rates. In addition, our promotional programs drove customer activity to our channels.

With this growth, we've remained disciplined from a risk perspective and our mortgage portfolio continues to perform well, with provisions remaining at historic lows.

We also saw continued momentum in business loans, which were up 9 percent from last year. We've seen confidence rise among clients, particularly in the retail sector, as the weak dollar encourages Canadians to stay home to shop. We also saw strength in the manufacturing sector, as our clients take advantage of strong export conditions. In addition, we're seeing the benefit of investments we've made to grow in key markets.

Our margins have held up relatively well in recent years but continue to be pressured by the low interest rate environment and competitive pressures, particularly given our relatively high proportion of fixed-rate mortgages and our strong and growing core deposit base.

This quarter we also extended our lead as the #1 deposit franchise in Canada, with an industry leading market share of combined consumer and business deposits.

We achieved 13 percent growth in core chequing accounts, a key anchor product for us. Beyond deepening client relationships, deposit growth improves our funding position and provides leverage to higher rates in the future.

Our expense growth was well-controlled this quarter, and we achieved positive operating leverage.

Given the current environment we continue to closely manage costs. At the same time we're continuing to invest in digitizing the bank, and have maintained the leading share of digital sales volumes in Canada, capturing almost half the market.

Turning to Caribbean Banking, we delivered record results this quarter. This was our third consecutive quarter of solid core results following two years of significant restructuring, which demonstrates our ability to turn around an underperforming business and reposition it for long-term growth.

Moving to Wealth Management. This is our first quarter with City National, which closed on November 2 and is now part of our new U.S. Wealth Management business line.

I'm very pleased with the underlying performance. City National generated earnings of over $100 million dollars[1] this quarter, driven by double digit loan and deposit growth. Even with the accounting adjustments and integration costs that Janice will walk through, this business made a net positive contribution to earnings this quarter which was ahead of plan.

While it's early days, we're rapidly firming up plans to deliver on our synergies and I'm excited to tell you more about this great franchise at our City National Investor Day, which will be held here in Toronto on March 4, 2016.

Moving to Global Asset Management, as expected lower market returns drove lower fees, but we still achieved positive net sales. However, in January, in particular, we saw some clients move assets into cash products as they waited for market volatility to subside.

This remains a key growth business for us, and we continue to develop new investment solutions for our retail and institutional clients, including expanding our suite of U.S. dollar investment solutions for Canadian investors.

Canadian Wealth Management had solid growth in client assets, and we extended our #1 position in the high net worth segment. While market conditions resulted in lower client transactions we saw good growth in insurance solutions demonstrating that our clients value our holistic approach to wealth management.

Lastly, we're continuing to work through the restructuring of International Wealth Management. Given the complexity it's taking longer than planned, but we're committed to optimizing this business for the long-term.

Moving to Insurance, on January 21st we announced that we reached an agreement to sell our home and auto insurance manufacturing capabilities to Aviva Canada, which will allow us to focus on underwriting products where we see the greatest potential for growth, including our life, health and wealth insurance offerings

In addition, we signed a 15 year strategic agreement with Aviva which will allow us to sell their broad suite of property & casualty products to our clients under our own brand.

Investor & Treasury Services delivered a solid quarter. We continued to drive top-line growth by leveraging our leadership position in Canada and in the offshore fund markets of Luxembourg and Ireland to win new business and strengthen existing client relationships. We also increased investment in technology to enhance the client experience.

Capital Markets performed well in a difficult environment. Our results were solid compared to a very strong quarter last year and they improved from the prior quarter even with higher PCL, which Mark will expand on.

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[1] This is a non-GAAP measure which excludes amortization of intangibles of $31 million after-tax and $23 million after-tax of acquisition and integration costs. This measure provides readers with a better understanding of management's perspective on our performance. City National's unadjusted earnings contribution was $53 million

Corporate & Investment Banking revenue was down slightly from very strong levels last year, but up sequentially even with the significant slowing of new issuance activity. In fact, there were no IPOs both in Canada nor in the U.S. in the month of January. There were also fewer debt instruments this quarter as credit spreads remained wide.

However, global M&A activity remained strong during the quarter and reached a record high in November. Against this backdrop we advised our clients on over 29 billion dollars of completed M&A transactions, including several high profile deals in the U.S., and we advised on the largest infrastructure deal in Australia's history.

We also had double digit revenue growth in Europe as our market position continues to strengthen and benefit from the investments we've made over time.

Turning to Global Markets. Trading revenue was lower compared to the strong first quarter last year as market conditions impacted both originations and secondary trading.

But, trading revenue improved from last quarter as client activity increased, particularly in our fixed income business.

Overall, our results in Capital Markets demonstrate the strength of our client focused businesses and the value of our diversification across products, industry sectors and geographies.

So to wrap up, I'm pleased with our performance this quarter.

We had solid underlying results in our core client businesses, we continued to optimize some underperforming businesses, and we enhanced our digital capabilities for our clients while demonstrating very good expense management.

And the closing of City National creates a powerful platform for long-term growth in the U.S. – RBC's second home market.

In the current environment there is tremendous value in being a leader across a diverse set of global businesses and I am confident that we will continue to deliver long-term value to shareholders given the strength of our leading client franchises, our strong execution capabilities, and our disciplined approach to risk and cost management.

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

JANICE FUKAKUSA. CHIEF ADMINISTRATIVE OFFICER AND CHIEF FINANCIAL OFFICER

Thanks Dave and good morning everyone.

As shown on slide 6, we had solid first quarter earnings of over 2.4 billion dollars, flat from last year despite the challenging operating environment and lower market returns.

Our results reflect higher earnings in Wealth Management, which benefitted from the inclusion of City National, record earnings in Personal & Commercial Banking and higher earnings in Investor & Treasury Services, offset by lower results in Insurance and Capital Markets.

Provisions for credit losses increased from last year, mainly due to the impact of sustained low oil prices, which Mark will discuss.

Compared to last quarter, earnings were down 6 percent, mainly due to last quarter's net favourable tax adjustments recorded in Corporate Support. Higher earnings across most business segments were partly offset by lower Insurance results.

We demonstrated good expense management. Net of the Insurance fair value change, our operating leverage was negative 2.3 percent, or positive 1.3 percent[2] excluding City National.

This quarter our Return on Equity was 15.3 percent, down 260 basis points from last year largely reflecting the additional shares we issued to fund half the purchase price of City National.

As we discussed last quarter we've maintained our medium-term objective for ROE of 18 percent plus based on our confidence that we will be able to build back up to that target level over time. We continue to focus on optimizing our balance sheet as we work towards this objective.

Turning to capital on slide 7. Our Common Equity Tier 1 ratio was strong at 9.9 percent, down 70 basis points from last quarter as the closing of City National was partially offset by internal capital generation.

City National impacted our CET1 ratio by 94 basis points, slightly more than our previous estimates largely due to the impact of foreign exchange translation on risk-weighted assets.

In addition, our capital ratio was impacted by a lower discount rate which increased our pension obligations.

Let's move to the performance of our business segments starting on slide 8.

Personal & Commercial Banking reported record earnings.

Canadian Banking had earnings of over 1.2 billion dollars, up 11 million dollars or 1 percent from last year.

Our results were driven by solid volume growth of 6 percent, including loan growth of 5 percent and deposit growth of 7 percent, although the related revenue was impacted by lower spreads.

Our net interest margin was 2.62 percent, down 6 basis points from last year reflecting the low interest rate environment and competitive pressures.

Overall funding costs have increased due to ongoing market volatility, which has resulted in margin compression, particularly on our prime-based products.

As we expect ongoing pressure from low interest rates and the competitive environment, we will continue to remain disciplined about managing our margins.

Our performance this quarter also reflects modest fee-based revenue growth.

Expenses were up 2 percent from last year, reflecting higher costs in support of business growth, partially offset by our continued focus on efficiency management activities.

We had positive operating leverage of 0.2 percent this quarter, and our efficiency ratio of 43.7 percent improved 10 basis points from last year.

[2] This is a non-GAAP measure that provides readers with a better understanding of management's perspective on our performance.

We believe there's more we can do to drive further efficiencies and we continue to target operating leverage in the 1 to 2 percent range.

Sequentially, Canadian Banking earnings were flat as solid volume growth, higher fee-based revenue and lower marketing costs were offset by higher PCL and lower spreads.

Caribbean and U.S. Banking had record earnings of 59 million dollars, up 24 million dollars from last year, largely reflecting the favourable impact of foreign exchange translation. Ongoing efficiency management activities also contributed to core earnings growth.

Sequentially, earnings were up 16 million dollars, largely reflecting higher fee-based revenue.

Turning to slide 9, Wealth Management had earnings of 303 million dollars, up 32 percent from last year and 19 percent from last quarter.

City National added 53 million dollars to our earnings this quarter, or 107 million dollars[3] excluding amortization of intangibles of 31 million dollars after-tax, and acquisition and integration costs of 23 million dollars after-tax.

As Dave mentioned, City National's performance reflects strong operating results with loan and deposit balances up 14 percent and 12 percent, respectively, from last year. Its credit quality also remained stable.

Our integration is proceeding well, and City National's results are ahead of plan given strong core performance helped by a favourable exchange rate.

Excluding City National, our Wealth Management results were impacted by challenging markets. We also incurred restructuring charges of 18 million dollars after-tax related to the repositioning of our International Wealth Management business, mostly related to the announced sale of our Caribbean wealth business which is expected to close in the latter half of the year.

As we've discussed, we're taking steps to improve our operating performance for the segment. We're pleased that focused expense management and savings from the restructuring activities helped drive 9 percent earnings growth and positive operating leverage this quarter.

Global Asset Management revenue was down 5 percent from last year largely due to lower performance fees.

Assets under management grew 3 percent from last year, even in challenging market conditions, reflecting solid net sales.

Canadian Wealth Management revenue was up 6 percent compared to last year as higher earnings from growth in fee-based client assets more than offset lower transactional revenue given decreased trading volumes and fewer equity issuances.

Moving to Insurance on slide 10. Net income of 131 million dollars was down 54 million dollars or 29 percent from last year, reflecting higher claims costs largely in our life retrocession business, and lower earnings from a new U.K. annuity contract this quarter compared to two new contracts last quarter.

Sequentially net income was down 94 million dollars or 42 percent, reflecting favourable actuarial adjustments in the prior quarter, and higher claims costs in the current quarter.

[3] This is a non-GAAP measure that provides readers with a better understanding of management's perspective on our performance.

As Dave mentioned, this quarter we announced the strategic sale of our home and auto insurance business. We expect to record a gain of approximately 200 million dollars after-tax when the transaction closes, which we expect in the third quarter of this year.

Turning to slide 11. Investor & Treasury Services had earnings of 143 million dollars, relatively flat from last year. Earnings from better spread capture in our treasury portfolio, the positive impact of foreign exchange translation, and growth in client deposits were offset by increased investments in technology.

Compared to last quarter, earnings were up 55 million dollars or 63 percent. I'll remind you that last quarter credit spreads widened considerably and, as a result, we recognized mark-to-market losses on securities held in our treasury portfolio. This quarter credit spreads stabilized which improved the performance of the portfolio.

Turning to slide 12, Capital Markets had a good quarter in a difficult market environment. Net income of 570 million dollars was down 24 million dollars or 4 percent from very strong results last year driven by lower equity trading revenue and lower debt origination activity across most regions. In addition, we had higher PCL.

These factors were partially offset by lower variable compensation, the positive impact of foreign exchange translation, and a lower effective tax rate which helped to significantly improve our efficiency ratio.

Sequentially, earnings were up 15 million dollars or 3 percent, driven by higher fixed income trading revenue reflecting stabilizing credit markets, as well as lower litigation provisions and related legal costs.

We also benefited from higher M&A activity and equity origination in the U.S. These factors were partially offset by higher PCL. In addition, our results last quarter included favourable income tax adjustments.

Before I hand it over to Mark, let me take a moment to discuss our allowance for loan losses because we've had questions about the accounting differences between Canada and the U.S.

Our accounting for provisions follows an incurred loss model.

As you can see in our disclosures, at the end of Q1, we had an allowance of 2.3 billion dollars, of which 800 million dollars was for specific losses, and 1.5 billion dollars was for our "general allowance" – or losses that have been incurred but we haven't been able to specifically identify yet.

Depending on the type of loan, we typically allow 9 to 12 months for losses to become identifiable to us. For residential mortgages, we extend this timeframe to 18 months.

Currently, the major source of potential new loan losses relates to the impact of low oil prices on our wholesale loan portfolio, and possible impacts to our retail portfolios through lower employment and the wind down of severances packages, mainly in oil-exposed regions.

During the past few quarters, we have scrubbed our oil and gas exposures with a bottoms-up name-by-name analysis and a macro stress test which Mark will discuss.

We understand the portfolio extremely well.

In the scenarios we have tested, we believe that our General Allowance is adequate to cover our losses over the next 12 months as it covers the “unknown” items.

This contrasts with U.S. accounting which is moving towards expected losses.

We understand that a number of US banks effectively incorporate an expected loss model in their current provisioning.

As we transition to new IFRS loan accounting, we will be closer to the expected loss model.

With that, I will turn it over to Mark.

MARK HUGHES. CHIEF RISK OFFICER

Thank you Janice and good morning.

Turning to slide 14. As a result of sustained low oil prices and a rise in unemployment in oil-exposed regions, provisions for credit losses on impaired loans increased from last quarter’s low levels of 23 basis points to 31 basis points this quarter.

For context, this time last year the price of oil was around $50 a barrel, a level that we noted challenged the profitability of the sector. Throughout 2015 many of our clients in the oil and gas sector raised capital, delayed capital spending, cut dividends or sold assets to help mitigate the impact.
The extended duration of low oil prices, which averaged $37 a barrel in Q1, has put additional pressure on some of our clients.

Given the challenging environment, our credit performance this quarter was in line with our expectation.

As seen on slide 15, provisions of $410 million increased by $135 million this quarter, mainly driven by higher provisions in Capital Markets and Personal & Commercial Banking.

In Capital Markets, provisions were $121 million or 53 basis points, up $84 million or 36 basis points from last quarter, primarily due to losses on four oil and gas accounts and one utility account.

Wholesale provisions can be lumpy and this quarter we had one large provision on a syndicated exploration and production company which accounted for approximately two thirds of the Capital Markets’ provisions.

The remaining oil and gas provisions are related to two drilling and services accounts, one in Canada and one in the U.S., and one exploration and production account in the U.S.

In Personal & Commercial Banking, provisions were $284 million or 30 basis points, up $44 million or 5 basis points from last quarter.

Provisions in Canadian Banking were $266 million or 29 basis points, up $38 million or 4 basis points from the prior quarter, due to higher provisions mainly in our personal lending and cards portfolios.

As expected, a rise in unemployment in oil-exposed provinces is affecting retail clients and largely explains the increase in provisions this quarter.

Provisions in Caribbean & U.S. Banking were $18 million, up $6 million from last quarter, reflecting higher recoveries in Q4.

Provisions in Wealth Management were $5 million or 4 basis points, up $4 million or 2 basis points sequentially due to the addition of City National.

Turning to slide 16. Gross impaired loans increased $835 million from last quarter, largely due to credit impairments of $657 million acquired with City National. These impairments consist mainly of FDIC covered loans, which should not result in any material losses.

Excluding City National, our GIL ratio was up only 2 basis points[4] sequentially, reflecting new impairments in Capital Markets and the impact of foreign exchange translation.

Let me provide some additional colour on what we're seeing in our portfolios as a result of sustained low oil prices starting on slide 17.

Our drawn wholesale loan book to the oil and gas sector, while continuing to represent only 1.6% of RBC's total loan book, has increased by $693 million this quarter. This largely reflects the impact from foreign exchange translation as well as higher drawings on some existing facilities.

Approximately 60% of our drawn exposure is to exploration and production companies, typically governed by borrowing bases and sized to the proven reserves of the borrowers, which provides good protection against credit losses.
Our total drawn and undrawn exposure to the sector, excluding the impact of foreign exchange, was flat sequentially, with no significant change in mix.

Over the past few months, we ran an updated name-by-name wholesale stress test assuming a $30 oil price flat throughout 2016, followed by a discounted futures price curve thereafter.

Based on this stress test, we added 9 new names to our energy watch list for closer monitoring and anticipate our PCL to fall within a 30 to 35 basis points range.

We also ran an enterprise-wide macro stress test, based on oil at $25 a barrel in 2016, which looked at the impact on our retail and wholesale portfolios in Alberta and the contagion effect on the rest of Canada should this cause a Canadian Recession.

In what we believe to be an unlikely scenario at this point, provisions based on this macro stress test would increase to 40-50 basis points, which is within our historic average through a cycle.

As we've seen this quarter, we expect that the current environment will likely result in further liquidity challenges for some of our clients, causing increased drawings on committed lines.

Further, as we look ahead to the spring redetermination we expect a further decline from the price deck we used last fall, which will likely result in reduced credit for some clients.

These conditions will likely lead to continued losses, although they won't necessarily materialize in a linear fashion.

I would add that in this environment, we work with our clients to assess their situation on a case-by-case basis. This includes assessing covenants in relation to cash flows. In some cases, we

[4] This is a non-GAAP measure that provides readers with a better understanding of management's perspective on our performance.

may provide covenant relief as our goal is to help support our clients while also minimizing our losses.

As for our commercial clients, so far they have remained relatively isolated from the impact of low oil prices given the strength of their balance sheets and geographic diversification.

Let's now turn to our retail exposure on slide 18. As I mentioned earlier, sustained low oil prices have led to increasing unemployment rates.

Alberta's unemployment rate increased from 4.6% to 7.4% over the past year and severance packages have started to wind down. The unemployment rate now exceeds the national average.

We are also seeing similar trends in other oil-exposed regions, such as Saskatchewan, and Newfoundland and Labrador.

As a result, provisions in these regions have increased, largely in our personal lending and cards portfolios, where the first signs of stress typically occur.

Against this backdrop, we continue to actively monitor shifts in our clients' financial patterns to ensure we maintain visibility into early signs of stress.

We did see delinquencies move up this quarter from historical lows in our residential mortgage portfolio in Alberta, and are proactively working with these clients.

Overall, however, our mortgage portfolio continues to perform well given our strong underwriting practices and geographic diversification, with provisions of 2 basis points this quarter.

Turning to slide 19. The vast majority of our clients' credit profiles are strong and have remained stable over the past year. In fact, the average FICO score in Alberta is in line with the national average. Also, the debt service ratio is stronger than the national average and we have a greater percentage of insured mortgages in that region.

While we do expect to see further credit deterioration in our retail portfolio in oil-exposed regions, we did not see any signs of deterioration outside of these regions this quarter.

Turning to market risk on slide 20. Our average Value-at-Risk increased by $5 million from last quarter due to foreign exchange translation and higher equity market volatility. This was partially offset by lower interest rate and credit spread exposures from reductions in our fixed income portfolios, which also impacted our average stressed Value-at-Risk, reducing it by $8 million sequentially.

Both remain low relative to our revenue streams.

This quarter we had 3 days of net trading losses totaling $13 million, largely due to higher market volatility in Q1 driven by uncertainty over China's economic growth, which adversely impacted commodities and equities globally. This is down from 6 days of net trading losses last quarter.

To conclude, while the ongoing market and economic headwinds underpin a cautious outlook, and we are continuing to monitor for any signs for contagion, we do expect to continue to benefit from the diversification of our portfolios, both in terms of geography and industry, as well as our prudent risk management practices.

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 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 adjusted Wealth Management measures reflecting the acquisition of City National, City National earnings excluding amortization of intangibles and acquisition and integration costs, adjusted net interest margin, and operating leverage net of the insurance fair value change and excluding City National 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 Q1/2016 Report to Shareholders and 2015 Annual Report.

Definitions can be found under the “Glossary” sections in our Q1/2016 Supplementary Financial Information and our 2015 Annual Report.