ROYAL BANK OF CANADA FIRST QUARTER RESULTS CONFERENCE CALL FRIDAY, FEBRUARY 23, 2018

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Additional information about these and other factors can be found in the risk sections of our 2017 Annual Report and in the Risk management section of our Q1/2018 Report to Shareholders.

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DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Good morning everyone. I don't think we've ever had to compete with Team Canada Olympics hockey game before. So thanks, everyone, for joining us this morning. We got both angles covered, though, as we've got lots of ads on the Olympics, if you're watching that coverage at the same time.

So not sure how Team Canada started, but RBC had a strong start to the year, with robust client activity across our businesses. We saw strong volume growth and investment appetite in our retail businesses, and good origination and lending activity in Capital Markets.

Supported by rising interest rates and equity markets, we generated strong revenue growth. This led to 3 billion dollars of net income in the first quarter, while we absorbed a write-down related to the U.S. Tax

Reform[1]. Excluding this write-down, we generated 3.2 billion dollars[2]. Overall, we believe the tax reform will be positive for the broader U.S. economy and our businesses.

Our strategy for sustainable growth is built on prudently managing risks, and effectively deploying capital to deliver premium returns through the cycle. We did so this quarter, with an ROE of 17.4 percent.

We invested in organic growth in each business, while buying back 9 million shares and maintaining a strong CET1 ratio of 11%. In addition, I'm pleased to announce a 3 cent increase to our dividend this morning, bringing our quarterly dividend to 94 cents per share.

Our strong performance also gives us the financial flexibility to invest more in technology, and position RBC for the future. We're using our resources to help advance Canada's competitive position. This includes researching new banking models, and developing data and machine learning capabilities at our Borealis A.I. research facilities. We're also opening a cybersecurity lab at the University of Waterloo, as part of our commitment to develop talented researchers in Canada.

Our commitment to innovation is one example of how we're living our Purpose to help clients thrive and communities prosper. That's why we introduced RBC Future Launch last year, a $500-million dollar commitment over 10 years to prepare young Canadians for the future of work, by providing them with access to skills development and networking opportunities.

We are also living our Purpose through our commitment to the environment, and to diversity and inclusion. This quarter, we were one of two Canadian financial institutions that committed to a global United Nations project to identify climate-related risks and opportunities. RBC was named to the 2018 Bloomberg Gender-Equality Index, and our U.S. business was recognized by the Human Rights campaign as the "Best Place to Work for L.G.B.T. Equality".

We believe that having a purpose, and doing the right things for our communities and employees will help us outperform over the long term.

Now, turning to our segment performance.

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1 In December 2017, the U.S. H.R. 1 (U.S. Tax Reform) was passed into law.

2 Results excluding the $178MM charge related to the U.S. Tax Reform in Q1/2018 (the U.S. Tax Reform related charge) is a non-GAAP measure. For more information, please refer to the Notes to Users on page 11.

Our Canadian Banking business generated record revenues this quarter. We saw strong client activity that drove volumes higher across our products, with results also benefiting from a rising interest rate environment.

The recent normalization of house prices in certain areas like Toronto is healthy for the market. While it is too early to measure any long term impact of the B-20 rules, we continue to believe in the fundamental strength of the Canadian economy because of our low unemployment rates, solid GDP growth, and healthy immigration levels.

We will continue to help Canadian homeowners while supporting balanced growth in the market. As always, we monitor risk profiles to manage through a cycle, and we place emphasis on the quality of the borrower. We will not compromise on our risk profile just to add mortgage volumes.

In Cards, we recorded 11% growth in purchase volumes driven by a number of factors, including the strength and breadth of our market leading value proposition including RBC Rewards, coupled with strong partnerships and more recently, new retail offers. Our Petro-Canada “linked” loyalty offering has shown early signs of success with over 340,000 linked loyalty accounts, and 10,000 new card sales through the promotional website alone. Additionally, industry data shows our cards business is growing at a significant premium to the market on purchase volume and balances. We are achieving this growth even while staying focused on prime and super-prime borrowers.

Turning to our Business customers, we’ve added more commercial bankers to help our clients grow. This helped us achieve 12% growth in business loans, as clients and the markets appear to look past NAFTA concerns. Our commitment to helping customers grow across borders helped us win “Best Trade Finance Provider in Canada” by Global Finance magazine.

In Wealth Management, we achieved a record quarter for both revenue and earnings. Our Canadian Wealth Management advisors were recognized by EuroMoney as the Best Private Banking Services in Canada. Global Asset Management continues to outgrow the market. We generated strong retail net sales and added some large institutional mandates. We also benefited from strong global equity markets and good fund performance, with 83% of our funds outperforming their benchmark on a 3-year basis. This business grew assets under management by more than $40 billion dollars over the last 24 months.

In our U.S. Wealth Management business, our strong growth momentum continued. We added more client-facing colleagues as we expand commercial banking coverage, including in the food and beverage industry, and added private bankers throughout California. This has led to double-digit growth in new clients at City National.

Investor & Treasury Services posted record results this quarter driven by an increase in deposits and favourable markets.

Our continued investment in sophisticated, end-to-end technology drove new relationships, including that of HarbourVest, a large global private equity investment manager. We also made strategic hires in our asset services business to bolster our competitive position in key global markets.

Our Capital Markets clients were active in the quarter, which led to record results. Origination activity was up, and our fixed income team continued to outperform with strong origination and credit trading. Our U.S. and European investment banking results were also strong with several large M&A mandates completed. For example, RBC Capital Markets provided a comprehensive financing solution for Sempra Energy's acquisition of Texas-based Energy Future Holdings, the largest utility acquisition financing in recent history. We will continue to look for ways to deepen and develop new long-term relationships with quality clients.

Overall, I'm very pleased with our first quarter results. We are mindful of the recent market volatility, and this is where we can provide valuable advice to clients, to ensure they are on track to achieve their goals. I believe we are well-positioned to meet our financial objectives through the coming year.

I'll now pass it over to Rod.

ROD BOLGER, CHIEF FINANCIAL OFFICER

Thanks Dave and good morning everyone.

Starting on slide 6, our first quarter earnings of 3 billion dollars were relatively flat year-over-year, and EPS was up 2% reflecting the benefit of share buybacks.

This quarter we absorbed a write-down of 178 million dollars related to the U.S. tax reform. Excluding this write-down and last year's Moneris gain, earnings of $3.2 billion would be up 13%[3] and EPS up 16%[4]. In addition, we had a couple of favourable items, which added, in aggregate, 50 million dollars after-tax to earnings.

3 Results excluding the U.S. Tax Reform related charge and the gain of $212MM in Q1/2017 representing our share of a gain on the sale of the U.S. operations of Moneris Solutions Corporation to Vantiv, Inc.(the Moneris gain on sale) is a non-GAAP measure. For more information, please refer to the Notes to Users on page 11.

4 Results excluding the U.S. Tax Reform related charge and the Moneris gain on sale is a non-GAAP measure. For more information, please refer to the Notes to Users on page 11.

Our revenue growth was driven by solid volume growth and client activity across most businesses, partly due to favourable macro tailwinds. Our cost discipline across the organization allowed us to improve efficiency while investing more in innovation and talent to grow our business. We also continue to absorb higher regulatory and cybersecurity spend.

On taxes, we expect to earn back the tax write-down in the first year through the lower tax rate on U.S. earnings. I should note that we are required to use the same blended Federal tax rate in the U.S. throughout the whole year, including in the current quarter. This blended rate includes the previous U.S. Federal tax rate of 35% and the new tax rate of 21%, so our blended U.S. Federal rate of about 23% will be used in each quarter of 2018. We're projecting an annual benefit to earnings of about 250 million dollars, and our effective tax rate guidance for the bank would move to the lower end of our 22 to 24% range going forward.

I'd like to spend a moment on the change in the accounting standard for PCL. Effective November 1, 2017, we adopted IFRS 9, which introduced an expected loss accounting model for credit losses that differs from the incurred loss model under the previous IAS 39 accounting standard, and results in earlier recognition of credit losses.

Under IFRS 9, credit loss allowances are applied to nearly all financial assets, and PCL is recorded in three stages. Both Stage 1 and Stage 2 allowances are held against performing loans, akin to the old general allowance. Stage 1 and 2 are both contingent on the magnitude of credit risk, with the key difference being the time horizon for expected losses, and we expect migration between these two stages depending on significant changes to credit risk. Allowances in each stage are impacted by a large number of variables, including, but not limited to macroeconomic projections. These include the credit quality of the borrower and volume growth, net of maturities. As always, the re-measurement of expected losses considers not only a forecast of economic conditions, but also past events and current conditions. Stage 3 PCL is held against impaired loans, and effectively replaces specific PCL under the previous accounting standard.

As Mark noted last quarter, through the cycle, we expect the level of provisions under IFRS 9 to be relatively similar to provisions under the previous accounting standard. Mark will comment further on our credit performance shortly.

Slide 7 provides the IFRS 9 transition impacts on our capital and equity positions. On transition, our shortfall of accounting allowances to Basel expected losses was $1.2 billion. The impact of the impairment requirements of IFRS 9 reduced the shortfall but did not eliminate it. So the impact on CET1 was negligible. And going forward, this remaining shortfall from CET1 of 549 million dollars at the end of Q1 provides an additional capital buffer against future PCL increases in an economic downturn.

Turning to slide 8, our Common Equity Tier 1 ratio was strong at 11 percent, up 10 basis points from last quarter. This was largely driven by internal capital generation and a reduction in the Basel 1 Floor adjustment, which as you may recall we triggered last quarter. These factors were partially offset by higher RWA in the quarter due to business growth, and the previously mentioned repurchase of shares, completing our 30 million buyback program announced in March, 2017.

This morning we announced a new repurchase shelf for 30 million shares. Share buybacks continue to be a useful tool to deploy excess capital after fully investing in our businesses.
In January, OSFI proposed a new regulatory capital floor based on Basel II Standardized RWA which will take effect in the second quarter of 2018. The Basel II floor is more risk sensitive than the current Basel I floor. As a result, it is more aligned with how we manage our business, and therefore, we do not expect the new Basel II floor to impact us in Q2 or throughout 2018.

Now I will turn to the performance of our business segments.

Starting on slide 9, Personal & Commercial Banking reported earnings of 1.5 billion dollars. Canadian Banking net income of nearly 1.5 billion dollars was down 4 percent from a year ago due to the prior year's 212 million dollar gain on the sale of Moneris. Adjusting for that gain net income was up 11%[5]. We also had a gain of 27 million dollars related to the reorganization of Interac this quarter.

Revenue increased 3 percent from a year ago, or 8 percent[6] adjusting for the gains I just noted. Underlying revenue was driven by solid volume growth, higher spreads and higher mutual fund distribution fees. There was also higher-than-normal client activity in our Direct Investing online brokerage business.

Reported operating leverage in Canadian Banking was negative 1.7 percent. However, underlying operating leverage was 3.5% after adjusting for both the Interac gain and last year's Moneris gain[7].

Mortgages were up over 6 percent year-over-year, with a small portion of the growth due to increased demand ahead of implementation of the B-20 guidelines. We continue to expect mortgage growth to moderate to the mid-single digits.

NIM increased 7 bps year-over-year and 3 bps quarter-over-quarter, largely benefiting from higher interest rates. Given the current interest rate environment, we expect NIM to grow an additional 3 to 5 basis points

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5 Results excluding the Moneris gain on sale is a non-GAAP measure. For more information, please refer to the Notes to Users on page 11.
6 Results excluding the Moneris gain on sale and the gain of $27MM after-tax ($31MM pre-tax) related to the reorganization of Interac in Q1/2018 (the Interac gain) is a non-GAAP measure. For more information, please refer to the Notes to Users on page 11.
7 Results excluding the Moneris gain on sale and the Interac gain is a non-GAAP measure. For more information, please refer to the Notes to Users on page 11.

for the remainder of the year, with some quarterly variability depending on further rate increases as well as competitive pricing pressure.

Turning to slide 10. Wealth Management reported earnings of 597 million dollars, up 39 percent from last year. In both Canadian Wealth Management and Global Asset Management, revenue increased largely due to higher fee-based assets under management due to strong market performance and solid net sales.
In U.S. Wealth Management (including City National) revenue was up 17% due to higher fee-based assets, as well as 14% strong loan growth at City National, and the benefit from recent Fed rate hikes. This quarter's earnings also included a 23 million dollar favourable accounting adjustment related to City National, and a lower effective tax rate benefits from the U.S. Tax Reform. All three of these Wealth businesses, Canadian and U.S. and global, all 3 of these businesses achieved record results.

Moving to Insurance on slide 11. Net income was down 5 percent from a year ago, largely due to favourable updates in the prior year related to premium and mortality experience in International Insurance as well as higher claims volumes related largely to life retrocession this quarter.

First quarter earnings were low when compared to fourth quarter due to the favourable impact of the annual update of actuarial assumptions completed in Q4 2017. Higher seasonal claims costs in disability, life and travel also contributed to the decrease.

Moving to slide 12, Investor & Treasury Services had strong earnings of 219 million dollars, up 2 percent from last year. Growth in earnings was driven by an increase in client deposits, increased revenue from our asset services business and higher funding and liquidity earnings. We continue to invest in technology and automation as we streamline processes and enhance the client experience.

Moving to slide 13, Capital Markets had record earnings of 748 million dollars, up 13 percent year-over-year, with our businesses performing well across all geographies. Part of the increase was due to the lower effective tax rate from U.S. tax reforms. However, we also did well in Corporate and Investment Banking, including higher lending revenue as well as increased debt origination across all regions and equity origination activity, mainly in the U.S. Global Markets improved year-over-year with fixed income trading performing well in the face of difficult market conditions. Results benefitted by higher equity trading and increased origination activity.

Looking forward, our pipeline of deals remains solid across all regions. However, as a reminder, both our Capital Markets and I&TS businesses do tend to have stronger first quarters. Also as a reminder, Canadian Banking gets impacted by fewer days in Q2. All that said, we expect to continue benefiting from our scale, performance and innovation across our businesses. Overall, we expect the recent strong operating environment to drive continued revenue and earnings growth.

Now I will turn it over to Mark to discuss Credit.

MARK HUGHES, CHIEF RISK OFFICER

Thank you Rod and good morning.

As Rod mentioned, this marks our first quarter under IFRS 9. Total PCL of $334 million was up $100 million from last quarter. This includes PCL on impaired loans of $325 million, up $91 million from last quarter, and PCL on performing loans of $9 million this quarter. Our Total PCL ratio was 24 basis points, while PCL ratio on impaired loans was 23 basis points, up 6 basis points QoQ, largely due to a few outsized recoveries last quarter. Overall, our credit quality remains strong supported by positive macroeconomic conditions.

Let’s now turn to slide 16 where we discuss the segment PCL on impaired loans, otherwise known as Stage 3 PCL under IFRS 9, as it is more indicative of the current credit performance of our portfolio.

In Canadian Banking, PCL on impaired loans of $268 million increased $17 million quarter over quarter, reflecting marginally higher PCL, but up from low levels, in our personal lending portfolio. Canadian Banking PCL of 26 basis points, up 1 basis point this quarter continues to be at the lower end of the range experienced over recent quarters.

Caribbean and U.S. Banking PCL on impaired loans were down $11 million from last quarter reflecting lower provisions in our Caribbean lending portfolios. We do not yet have an updated assessment of the hurricane damages in the Caribbean, where our exposure is limited to approximately $300 million, but expect greater clarity in the coming quarters.

Capital Markets PCL on impaired loans of $45 million increased $83 million from last quarter largely due to higher recoveries in the oil & gas and real estate sectors last quarter. This quarter included new provisions on a few accounts, including one in the consumer goods sector.

Turning to slide 17. Gross impaired loans of $2.5 billion were down $49 million or 2% from last quarter. Our gross impaired loan ratio of 45 basis points was down 1 basis point from last quarter.

Canadian Banking gross impaired loans increased $224 million from last quarter reflecting a $134 million increase due to a change in the definition of impairment for certain products as a result of our adoption of IFRS 9.
In regards to this IFRS9 driven increase, we now include mortgages and personal loans that are greater than 90 days past due in our gross impaired loans measure. Under IAS 39, the thresholds for mortgages were 180 days past due, if privately insured, or 365 days past due if government insured. The threshold for personal loans was mainly 90 days past due, but a small portion of this portfolio had a threshold of 365 days past due under the prior accounting standard. Unrelated to IFRS9 adoption, we also saw higher impaired loans in our Business Banking portfolio but no specific trends were identified.

Wealth Management GIL decreased $276 million mainly reflecting lower impaired loans in City National due to the exclusion of $229 million in acquired-credit impaired loans that have returned to performing status since the acquisition, and a $58 million decrease due to a change in our definition of impairment for certain products to better align to RBC's definition.

Let's now turn to our Canadian retail exposure on slide 18. Overall delinquencies for most portfolios stayed relatively stable at low levels, with Cards higher quarter over quarter, largely due to seasonality. As you can see, our PCL remained largely stable across all Canadian retail products.

Slide 19 shows that the credit quality of our Canadian mortgage portfolio continues to be strong with provisions remaining at 2 basis points. We remain comfortable in our client's ability to service their mortgage in this rising rate environment given our strong underwriting and credit monitoring practices. As you know, we already stress most of our new mortgages at a rate above the contract rate.

Overall, our lending portfolios continue to perform within expectations and for the remainder of 2018, we continue to expect our PCL ratio to trend in the 25 to 30 basis points range, subject of course to quarterly volatility. Assuming a stable macro-economic environment, growth in non-impaired PCLs should mainly be related to portfolio growth.

Turning to market risk on slide 27. Average market risk VaR increased $7 million QoQ, largely driven by the adoption of IFRS 9 which caused certain assets to be re-designated from AFS to Trading. In addition, equity exposures were higher on average during the quarter due to increased client-driven activity in volatile equity derivative markets. We did have no days of net trading losses in the quarter.

As this will be my last analyst call, I would like to thank the investor community for your interesting and challenging questions during my time as CRO. I have enjoyed dealing with you and I'm sure you will find RBC's risk management to be in very safe hands as Graeme takes over.

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

DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Thanks, everyone, for your time today. Before I end the call, as Mark mentioned, it's his last official quarterly call. And I just wanted to sincerely, on behalf of all our stakeholders, our investors, our employees, our clients, thank Mark for an outstanding 37 years. He served the organization and our shareholders exceptionally well and has done a wonderful job. So congratulations on a great career and as we said, with Graeme taking over, we know we're in great risk hands.

I'd also like to mention that we will hold the Canadian Retail Focused Investor Day on June 13 where we will discuss some innovation initiatives that we've been talking about in the market as well as our strategy to provide greater value to customers. We hope to see you there.

In summary, I think you saw a very strong performance, volume growth, margin increases, good cost control, relatively benign credit environment, strong ROEs. We're really happy with our Q1 performance and the momentum we have. Thanks, everyone, and have a good day.

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, including results excluding our share of the Moneris gain on sale, results excluding the Interac gain and results excluding the U.S. Tax Reform related charge 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” sections of our Q1/2018 Report to Shareholders and our 2017 Annual Report.

Definitions can be found under the “Glossary” sections in our Q1/2018 Supplementary Financial Information and our 2017 Annual Report.