



ROYAL BANK OF CANADA FIRST QUARTER RESULTS CONFERENCE CALL FRIDAY, FEBRUARY 22, 2019

DISCLAIMER

THE FOLLOWING SPEAKERS' NOTES, IN ADDITION TO THE WEBCAST AND THE ACCOMPANYING PRESENTATION MATERIALS, HAVE BEEN FURNISHED FOR YOUR INFORMATION ONLY, ARE CURRENT ONLY AS OF THE DATE OF THE WEBCAST, AND MAY BE SUPERSEDED BY MORE CURRENT INFORMATION. EXCEPT AS REQUIRED BY LAW, WE DO NOT UNDERTAKE ANY OBLIGATION TO UPDATE THE INFORMATION, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

THESE SPEAKERS' NOTES ARE NOT A TRANSCRIPT OF THE WEBCAST AND MAY NOT BE IDENTICAL TO THE COMMENTS MADE DURING THE WEBCAST. YOU CAN REPLAY THE ENTIRE WEBCAST UP TO MAY 22, 2019, WHICH INCLUDES A QUESTION AND ANSWER SESSION, BY VISITING THE ROYAL BANK OF CANADA ("RBC", "WE" OR "OUR") WEBSITE AT RBC.COM/INVESTORRELATIONS.

IN NO WAY DO WE ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON OUR WEBSITE OR IN THESE SPEAKERS' NOTES. USERS ARE ADVISED TO REVIEW THE WEBCAST ITSELF AND OUR FILINGS WITH THE CANADIAN SECURITIES REGULATORS AND THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC") BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. We may make forward-looking statements in these speakers' notes from the February 22, 2019 analyst conference call (the speakers' notes), in filings with Canadian regulators or the SEC, in reports to shareholders and in other communications. Forward-looking statements in these speakers' notes include, but are not limited to, statements relating to our financial performance objectives, vision and strategic goals. The forward-looking information contained in this document is presented for the purpose of assisting the holders of our securities and financial analysts in understanding our financial position and results of operations as at and for the periods ended on the dates presented, as well as our financial performance objectives, vision and strategic goals, and may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as "believe", "expect", "foresee", "forecast", "anticipate", "intend", "estimate", "goal", "plan" and "project" and similar expressions of future or conditional verbs such as "will", "may", "should", "could" or "would".

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, insurance, operational, regulatory compliance, strategic, reputation, legal and regulatory environment, competitive and systemic risks and other risks discussed in the risk sections of our 2018 Annual Report and the Risk management section of our Q1/2019 Report to Shareholders; including global uncertainty, Canadian housing and household indebtedness, information technology and cyber risk, regulatory changes, digital disruption and innovation, data and third party related risks, climate change, the business and economic conditions in the geographic regions in which we operate, the effects of changes in government fiscal, monetary and other policies, tax risk and transparency and environmental and social risk.

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 Economic, market and regulatory review and outlook section and for each business segment under the Strategic priorities and Outlook headings in our 2018 Annual Report, as updated by the Overview and outlook section of our Q1/2019 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 sections of our 2018 Annual Report and in the Risk management section of our Q1/2019 Report to Shareholders.

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

DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Good morning everyone, and thanks for joining us. We had a good start to the year. We delivered earnings of \$3.2BN, which was the second highest quarter on record. Against a backdrop of strong employment and resilient economic growth, we saw solid volume growth across our retail businesses. And our market related businesses performed well, given some of the market uncertainty during the quarter.

We've been investing in our front line in all businesses to grow volumes and market share, which led to record revenue of \$11.6BN. Our PCL was up, as we continued to prudently build our Stage 1 and Stage 2 allowance on performing assets, and we also had one fallen angel in the Utility sector. Overall, we view our credit position as strong. We continued to grow our balance sheet for clients across all businesses, while maintaining a strong CET1 ratio of 11.4% and we delivered a Return on Equity of 16.7%¹. In addition, I'm pleased to announce a 4 cent increase to our dividend this morning, bringing our quarterly dividend to \$1.02 per share.

¹ Return on Equity (ROE) does not have a standardized meaning under GAAP and may not be comparable to similar measures disclosed by other financial institutions. For more information see Note to Users on page 10.

Our results were driven by consistent client growth, backed by solid GDP growth in Canada and the U.S. Business investment remains active. And unemployment rates remain near historic lows. Although market activity took a pause in December, and equity markets were down, sentiment has improved over the past seven weeks.

For our Canadian Banking business, this macro backdrop supported solid revenue growth, and earnings of over \$1.5BN. Continued client activity drove volume growth, particularly in deposits, credit cards and business lending.

In Cards, purchase volumes grew 7% driven by a number of factors, including the value of RBC Rewards for customers, coupled with strong alliances such as WestJet and Petro-Canada. We continue to foster partnerships to create more value for Canadians. In November, we worked with WestJet to create a unique offer for Medical Students entering residency given the extensive travel involved. The offer was very well received, and this is part of our broader strategy to expand our relationships in the medical community, by creating a differentiated offering for this high-value client group.

We're also excited about RBC InvestEase, which we launched across Canada. Our robo-advising alternative helps serve our investing clients how and when they want – and fills an important new channel in our full range of offerings to clients.

In Business Banking, we added commercial bankers over the last couple of years, which helped us grow business loans by 12%, and business deposits by 9%. This group is also starting to see new relationships through RBC Ventures. For example, one venture called "Ownr", has already digitally registered nearly 5,000 new businesses, mostly in Ontario. And importantly, we've been able to convert over 40% of our recent "Ownr" users to Business Banking clients. We believe we can move that conversion higher as we optimize and scale the service nationally. In addition to "Ownr", we have brought over 10 new ventures to market, and have more on the way. We're excited about the momentum we have built with our ventures and new partnerships across Canada.

In Wealth Management, our Canadian Wealth advisors supported our clients through the recent market volatility and grew fee-based assets by \$16BN YoY, which drove higher fee-based revenue. Our competitive recruiting strategy has been working, and we added 40 experienced high-producing advisors over the past year, which we expect will contribute to further growth. Our Global Asset Management business was impacted by the market volatility, as retail clients shifted money from long term funds to money markets and cash in the first two months of the quarter. Even with this volatility, we continued to experience better fund flows than the industry. I'm also proud of our innovative strategic alliance with Blackrock that we announced last month. Together, we created RBC iShares, offering Canadian investors even more choice with over 150 ETFs.

In U.S. Wealth Management, I'm really pleased with the integration between City National and our Wealth Management advisory business, to deliver client growth in each of their core segments. Having taken a methodical approach to building a dedicated team of bankers to cover RBC Wealth Management offices in key markets including California and New York, we're seeing great client referrals into City National. In fact, last year a quarter of the mortgage flow coming into City National branches in those markets were referred by RBC Wealth channels. And this year is already tracking well ahead of that. It's our focus on clients that won City National 11 awards for business banking from Greenwich Associates, include recognition for overall client satisfaction.

Both our Insurance segment, and Investor & Treasury Services segment, posted solid results, each earning over \$160MM in the first quarter, while providing a diversified source of earnings and deposits. In both businesses we have been investing in technology to grow and retain clients, and lower our cost structure.

Our Capital Markets business generated strong earnings of over \$650MM against a challenging market backdrop. Across the industry, clients were less active in the first two months of the quarter, but activity did pick up through January. Equities had a strong quarter, and our fixed income business continued to perform better than the industry. We are also winning more lead mandates and landmark transactions. For example, RBC Capital Markets acted as sole advisor to BB&T on its announced \$66BN merger of equals with SunTrust. This was the largest bank merger in over a decade, and our role highlights the strength of our U.S. Capital Markets franchise.

Overall, I'm pleased with our results, and we feel good about meeting our financial targets for the remainder of the year. Our credit position is strong, against a solid macro backdrop. We're seeing our investments in client-facing talent and technology paying off, with higher volumes and market share gains. And notwithstanding a difficult December, our core business is strong. And our outlook is remains positive.

With that, I'll pass it over to Rod.

ROD BOLGER, CHIEF FINANCIAL OFFICER

Thanks Dave, and good morning everyone.

Starting on slide 5, first quarter earnings of \$3.2BN were up 5% YoY, and diluted EPS was up 7%. Excluding last year's write-down of \$178MM related to U.S. tax reform, (adjusted) EPS² would be up 1%³. In addition, growth would have been higher, if not for favourable items last year which added \$50MM after-tax to Q1 2018 earnings.

² Q1/2019 adjusted diluted EPS calculated by adding back after-tax effect of amortization of other intangibles of \$54MM and dilutive impact of exchangeable shares of \$4MM. This is a non-GAAP measure, for more information see Note to Users on page 10.

³ In December 2017, the U.S. H.R. 1 (U.S. Tax Reform) was passed into law. This measure excludes the \$178MM charge related to the U.S. Tax Reform in Q1/2018. This is a non-GAAP measure. For more information see Note to Users on page 10.

This year, we had small items which largely offset, including an accounting adjustment in Canadian Wealth Management and a write-down of deferred tax assets in the Caribbean. This quarter, our revenue growth was driven by the solid client-driven volume growth and higher spreads in our retail banking businesses, partly due to solid economic fundamentals that Dave mentioned. However, the market volatility in November/December reduced market-related revenue, before improving in January.

Given this temporary headwind, operating leverage in several businesses was negative in the first quarter. Nonetheless, we are still targeting to achieve positive operating leverage for the full year in our Canadian Banking, Wealth Management and Capital Markets franchises. Of course, this will partly depend on market conditions for our clients in some of these businesses.

Expenses were up 5% YoY as we invested in our distribution network and other initiatives to grow our customer base, which supported our record revenue this quarter.

Of that 5% expense growth: Over a third of the increase was from the unfavourable impact of foreign exchange translation. Approximately 20% of the growth was due to investing in front line sales and distribution, to grow clients and revenue. 25% was due to digital, data and Ventures initiatives to add value and connect with more clients. And the remaining 20% was for other operating costs including risk and regulatory costs as well as inflation.

Although we added FTE YoY, we expect growth to slow down as we go through the year. Our PCL ratio on loans⁴ this quarter was 34 bps, including 6 bps for Stage 1 and 2 PCL on Performing Loans due to both portfolio growth and the impact of higher near term market uncertainty. We also had one Utility account add 5 bps to Stage 3 PCL on Impaired Loans⁵. In the last 3 quarters, we have prudently added over \$220MM to our Stage 1 and 2 allowance on performing loans. On taxes, our effective tax rate was 19.5%, just under our expected range of 20 to 22% for the year.

Turning to slide 6, our CET1 ratio remains strong at 11.4%. This quarter, regulatory changes reduced CET1 by 10 bps, and our strong internal capital generation⁶ was offset by higher RWA due to client business growth. We are very comfortable with our capital position, which remains above our typical 10.5% to 11% target range and allows us to continue investing in organic growth and returning capital to shareholders.

Moving on to our business segment performance on slide 7. Personal & Commercial Banking reported earnings of almost \$1.6BN. Canadian Banking net income of over \$1.5BN was up 4% from a year ago.

⁴ PCL ratio on loans is calculated using PCL on loans as a percentage of average net loans and acceptances.

⁵ PCL on impaired loans ratio under IFRS 9 is calculated using PCL on Stage 3 loans and acceptances as a percentage of average net loans and acceptances.

⁶ Internal capital generation represents net income available to shareholders, less common and preferred shares dividends.

Excluding last year's \$27MM after-tax gain related to the reorganization of Interac, net income was up 6%⁷, and pre-tax pre-provision earnings were up 8%⁸.

Revenue increased 6% from a year ago, or 7% adjusting for that Interac gain⁷. Underlying revenue was driven by solid loan growth, as we gained market share in products such as credit cards and commercial lending, without increasing our risk appetite. We also had strong growth in both personal and business deposits.

Net interest margin of 2.79% was up 11 bps from last year, and 2 bps QoQ largely driven by higher deposit spreads. Going forward, without further interest rate hikes we expect NIM to improve by a total of 2 to 4 bps for the remainder of the year. Operating leverage in Canadian Banking was a slightly -0.2% this quarter, or +0.6%⁷ adjusting for last year's Interac gain. This was partly driven by lower mutual fund distribution fees, given challenging markets and lower client activity in our Direct Investing online brokerage business when compared to elevated activity last year. As I mentioned last quarter, we expect full year operating leverage to be in the 2%-3% range, subject to some movement between quarters. And we are maintaining that view.

Turning to slide 8, Wealth Management earnings of \$597MM were flat to last year. QoQ growth in fee-based client assets was muted in both Global Asset Management and Canadian Wealth Management. We also saw lower transaction volumes as many clients sat on the sidelines in the first two months of the quarter. Activity has improved since then. In U.S. Wealth Management, earnings were down 5% YoY in U.S. dollars, or up 6%⁹ adjusted for last year's favourable accounting adjustment related to City National.

Strong net interest income growth more than offset lower non-interest income. Loan growth of 15% at City National remained above the industry average, as we benefited from our organic expansion strategy. We remain confident that our holistic funding strategy will continue to support strong loan growth at City National Bank.

Moving to Insurance on slide 9, net income of \$166MM was up from \$127MM a year ago, as we benefitted from life retrocession contract renegotiations as well as lower claims costs. First quarter earnings were lower QoQ, as the fourth quarter tends to be seasonally higher. As we have mentioned in the past, there will be some quarterly volatility, but our full year outlook has not changed.

Slide 10 has Investor & Treasury Services results. Earnings of \$161MM were down from last year's record quarter with lower funding and liquidity revenue. Although we saw higher client deposit margins, this was

⁷ For the three months ended January 31, 2018, our results included a gain of \$27MM after-tax (\$31MM pre-tax) related to the reorganization of Interac. Results excluding this gain are non-GAAP measures. For more information see Note to Users on page 10.

⁸ Pre-provision, pre-tax earnings is the difference between revenue and expenses. This is a non-GAAP measure. For more information see Note to Users on page 10.

⁹ Q1/2018 excludes a US\$19MM after-tax (US\$27MM before-tax) favourable accounting adjustment related to CNB. This is a non-GAAP measure. For more information see Note to Users on page 10.

more than offset by global market volatility, which negatively impacted our asset services clients. Expenses were also up from last year due to our strategic technology investments to create efficiencies and enhance client experiences in this business. We expect expense growth to moderate in this segment going forward.

Finally on slide 11, Capital Markets had solid earnings of \$653MM, in spite of challenging industry-wide market conditions in November and December. Net income was down 13% from last year's record first quarter, partly due to a credit provision related to a single U.S. account in the Utilities sector. Corporate and Investment Banking activity revenue declined amid a smaller global fee pool as origination activity paused in the first two months of the quarter given the volatile markets. Global Markets revenue was flat YoY with higher North American equity trading revenue offset by lower fixed income results, largely in rates and credit given the market uncertainty and widening credit spreads. Still, our trading businesses outperformed broader industry trends.

Looking forward, higher markets and improving client sentiment should contribute to revenue growth across our businesses after the pullback earlier in the quarter. As a reminder, Canadian Banking gets impacted by fewer days in Q2.

In Capital Markets, our deal pipeline remains solid across all regions. In our Canadian Banking and Wealth Management businesses, we have had good growth momentum underpinned by investments in sales capacity and technology, and we are confident that we will continue to create value for our growing client base. Overall, we expect solid economic fundamentals to underpin continued revenue and earnings growth, and we expect to continue benefiting from our cost scale and client focus across our businesses.

With that, I'll turn it over to Graeme.

GRAEME HEPWORTH, CHIEF RISK OFFICER

Thank you Rod and good morning. Starting on slide 13.

In Q1, we continued to see market volatility due to greater vulnerability to the macroeconomic outlook stemming from trade tensions, geopolitical uncertainty and revisions to global growth forecasts to the downside. Given some unfavourable changes in near-term macroeconomic variables, such as equity markets, oil prices and unemployment rates, which serve as inputs to our provisioning models, PCL on Performing Loans exceeded our 3 bps run rate associated with volume growth, as I noted last November, to reach \$93MM or 6 bps this quarter.

PCL on Impaired Loans of \$423MM or 28 bps, increased by 8 bps from last quarter, mainly due to higher provisions related to one well publicized account in the utilities sector. Excluding this account, PCL on Impaired loans was in line with our expected range of 20-25 bps at 23 bps. In Canadian Banking, PCL on Impaired Loans of \$292MM, was up 1 bp from last quarter. The credit performance for this business continued to be in line with expectations.

In Wealth Management, PCL on Impaired Loans increased to \$11MM, or 3 bps, mainly due to higher provisions at City National. In Capital Markets, PCL on Impaired Loans increased to \$102MM mainly driven by higher provisions on the account I noted earlier. Turning to slide 14. Gross Impaired Loans increased to \$2.8BN, up by 9 bps from last quarter, largely due to a new formation in the utilities sector and seasonal factors in some of our retail products.

Turning to slide 16, PCL across all of our Canadian retail portfolios were generally stable quarter over quarter. In Alberta however, we have seen a slight increase in impairments in our residential mortgage portfolio as the region continues to recover from the oil downturn and elevated unemployment levels at 6.8%. The balance of our portfolio in this province was stable. For our retail portfolios overall, credit trends have generally remained stable and signs of stress have been isolated and manageable.

Let me now provide some colour on both our commercial real estate and leveraged lending portfolios. Starting with Commercial Real Estate, we have provided some new disclosures which can be found on slide 17. Overall, this portfolio represents 7% of our total outstanding loan book and is mainly comprised of loans to owners and operators of established, income producing properties. Development loans represent approximately 18% of our overall Commercial Real Estate portfolio with condo developers representing about a third of that. Over the past year, our Commercial Real Estate portfolio has grown by 17%, with Canadian Banking, City National and Capital Markets all contributing to that strong growth, in line with our risk appetite.

In addition to City National and Capital Markets' global focus, this portfolio is more diversified geographically and by industry segments than it has been historically. We are mindful of both the potential for adverse macroeconomic and secular trends in this sector and are closely monitoring our portfolio accordingly. Notwithstanding, we are comfortable with our underwriting practices which, together with our solid diversification, have contributed to its strong performance, with PCL averaging 14 bps over the past 4 years.

Let me now touch on our leveraged lending portfolio. Our leveraged finance business, which includes leveraged loans and high yield bonds, employs an underwrite-to-distribute model which leaves us with two primary risks: market risk in relation to the loans and bonds we distribute; and, credit risk in relation to the portion of the credit facilities we retain.

Our market risk is managed to a defined risk appetite, supported by well-established limits, deal-specific structure and pricing protections and speed to market with an average time from commitment to completion of syndication of less than 75 days. Our market risk framework has proven effective as we saw in November and December where we weathered the market volatility and decline extremely well. Though we look to distribute the vast majority of loans and bonds in a typical transaction, we do end up retaining a residual amount of exposure in the senior secured revolving credit facility.

While there is no standard market definition, non-investment grade leveraged lending exposure, as we define it at RBC, amounts to \$10.7BN of outstanding exposure which is less than 2% of our total loan book. Of that \$10.7BN, approximately 65% is rated BB, with the balance rated B or lower. Also, 35% of this portfolio is to private equity sponsors, with the balance to corporate clients. In addition to the senior secured nature of our exposure, the credit portfolio is very well diversified, with relatively small single-name concentrations across over 400 unique borrowers. No sector represents more than 19% of this portfolio. We are monitoring this market segment carefully, but remain comfortable with the size of this portfolio, the risk framework we use to manage it and ultimately the risk-return profile.

Briefly touching on market risk on slide 26. Increases in fixed income holdings and volatile equity markets drove Value at Risk and Stressed Value at Risk higher this quarter, particularly in December. Notwithstanding this volatility, we had no days of trading losses this quarter. To conclude, we are comfortable with the overall credit profile of our portfolios.

Looking at the remainder of the year, we would expect our Total PCL ratio to be in the 25 to 30 bps range, assuming the macroeconomic outlook remains unchanged, although we may see some volatility in a given quarter.

With that operator, let's open the lines for Q&A.

DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Thank you, everyone, for their questions. I would characterize it as a strong quarter – the diversity of our franchise really showed through in a quarter that had significant volatility, particularly in December that impacted our Capital Markets activity levels. It certainly impacted our AUM, AUA, AUC levels across our I&TS and Wealth Management franchises. But underlying all of that is a significant client momentum, market share gains and great core activity that we're able to earn through. So we feel, as we pointed out, very good about the activity levels in our business and the momentum our business is heading to the rest of the year. And we kind of remain confident in our medium-term outlook for the business. So thanks for your questions, and we'll talk to you next quarter.

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 Corporate Support, results excluding our share of a gain related to the sale of the U.S. operations of Moneris Solutions Corporation (Moneris gain on sale), adjusted earnings per share, pre-provision, pre-tax earnings, results excluding the gain related to the reorganization of Interac, Capital Markets average loans and acceptances excluding certain items, revenue net of Insurance fair value change of investments backing our policyholder liabilities, and City National adjusted net income 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 Q1/2019 Report to Shareholders and our 2018 Annual Report.

Definitions can be found under the “Glossary” sections in our Q1/2019 Supplementary Financial Information and our 2018 Annual Report.