ROYAL BANK OF CANADA SECOND QUARTER RESULTS CONFERENCE CALL WEDNESDAY, MAY 27, 2020

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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 May 27, 2020 analyst conference call (the speakers' notes), in other filings with Canadian regulators or the SEC, in other 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, assumptions made in our IFRS 9 calculations, our CET1 ratio, RWA and the potential continued impacts of the coronavirus (COVID-19) pandemic on our business operations, financial results and financial condition and on the global economy and financial market conditions, including statements about our actions in support of our clients. The forward-looking information contained in these speakers' notes 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 2019 Annual Report and the Risk management and Significant Developments: COVID-19 sections of our Q2 2020 Report to Shareholders; including information technology and cyber risk, privacy, data and third party related risks, geopolitical uncertainty, Canadian housing and household indebtedness, regulatory changes, digital disruption and innovation, 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, environmental and social risk and the emergence of widespread health emergencies or public health crises such as pandemics and epidemics, including the COVID-19 pandemic and its impact on the global economy and financial market conditions and our business operations, financial results and financial condition.

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 2019 Annual Report, as updated by the Economic, market and regulatory review and outlook and Significant Developments: COVID-19 sections of our Q2 2020 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 2019 Annual Report and the Risk management section of our Q2 2020 Report to Shareholders.

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NADINE AHN, SVP OF WHOLESALE FINANCE & INVESTOR RELATIONS

Thank you, and good morning everyone.

Speaking today will be: Dave McKay, President and Chief Executive Officer; Rod Bolger, Chief Financial Officer; and Graeme Hepworth, Chief Risk Officer. Then we'll open the call for questions. We also have with us in the room: Neil McLaughlin, Group Head, Personal & Commercial Banking; Doug Guzman, Group Head, Wealth Management, Insurance and I&TS; and Derek Neldner, Group Head, Capital Markets.

As noted on slide 1, our comments may contain forward-looking statements, which involve assumptions, and have inherent risks and uncertainties. Actual results could differ materially. I would also remind listeners that the bank assesses its performance on a reported and adjusted basis and considers both to be useful in assessing underlying business performance.

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

DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Good morning, and thanks for joining us in what are unprecedented and challenging times. We do hope you and your loved ones are keeping safe and well. Before I move into my comments on the macroeconomic environment, I do want to say how proud I am of our employees for all they have been doing throughout the crisis to bring our Purpose to life by supporting our clients and our communities. We moved quickly to support our clients, including granting payment relief to over 490 thousand clients, so they could redirect their money to where it's most needed. Our various client relief programs represent over $76 billion of loans outstanding. Graeme will speak more on these programs later in the call.

As the situation evolved, the regulatory, monetary and fiscal actions taken by policymakers globally has helped provide stability and support to the economy and the financial system. As Canada's largest financial institution, we also have an important role to play in helping lessen the financial impact of the crisis on our clients while helping to re-start our economies. In Canada, we have been working closely with the government in implementing various federal programs, and we have provided access to $4.5 billion in available funding to over 115 thousand clients through the CEBA[1] program. And given Canada's relatively strong fiscal position, the country's finances are well-positioned should further actions be required. In the U.S., we have provided over US$3.5 billion of funding to our clients through the Paycheck Protection Program.

I'll now provide some highlights of our financial performance. Today we reported earnings of $1.5 billion in a quarter where we recorded a provision of $2.8 billion, which I will speak to shortly. We carried our strong momentum from last quarter into Q2 and North American equity markets hit all-time highs in late-February. However, as the COVID-19 pandemic spread, the expanding public health crisis led to increased concerns around the global economic outlook, culminating in elevated market uncertainty in March. We supported our clients through these volatile markets as they drew down on their credit facilities in light of liquidity concerns. The severe correction in global markets, and widening credit spreads in particular, negatively impacted our results this quarter, including unrealized mark-to-market losses in a number of portfolios. This was partly offset by elevated client activity related to significant volatility across asset classes. In contrast, macro outlook concerns, low equity valuations and elevated volatility meant companies largely sat on the sidelines when it came to M&A. As credit markets opened up in April following significant interventions by central banks, we saw a significant uptick in investment grade debt issuance. Since mid-March, RBC Capital Markets has been a book runner on over US$150 billion in global investment grade issuance, and has led over 80 percent of corporate debt transactions in the Canadian market. Our source of strength and stability for clients is reflected in the significant growth of consumer and business deposits and strong volume growth in our wealth franchises in Canada and the U.S., particularly at City National. We've also seen an

[1]Canada Emergency Business Account.

acceleration of digital banking adoption, including all-time high volumes in direct investing. Rod will speak more to these trends later in the call. More recently, we have started to see a cautious re-opening of certain economies, including those in Canada. However, significant uncertainty remains on the severity and duration of the global economic downturn as a result of elevated unemployment, low oil prices and disrupted supply chains.

With that background, I want to focus my comments on the strength of RBC's financial position. Our balance sheet remains strong – giving us a solid foundation to face these risks head on. We have confidence in our prudent risk management and diversified business model. We have a proven ability to organically generate capital, averaging over a 17 percent return on equity[2] over the last three fiscal years. In a quarter of significant external stresses, we generated pre-tax, pre-provision earnings[3] of $4.6 billion, the 2nd highest in our 150 year history. We also paid $1.5 billion in dividends to our shareholders while growing our book value. While the economic downturn caused by the outbreak of COVID-19 was unexpected, we had been preparing for the potential of a recession in the shorter-term. Our focus over the last few years had been on driving market-leading organic growth while building up capital buffers as opposed to acquisitions or ramping up share buybacks. Furthermore, over the last two years, we made a conscious decision on the composition of our loan portfolio, including prudently managing our corporate loan book, growing our residential mortgage portfolio, and maintaining both underwriting limits and strict discipline on not originating non-prime unsecured retail credit.

We are confident in our robust balance sheet underpinned by a strong 11.7 percent CET1 ratio, which is 270 basis points or $15 billion over the current regulatory minimum; even after increasing provisions and providing exceptional support to our clients. We took prudent action to bolster our allowance for credit losses to $6 billion given the economic outlook, and our expectation of a prolonged recovery. Our stress testing suggests that even under a severe pandemic scenario, our capital levels remain above current regulatory minimum levels, and we remain well positioned to continue paying our dividend.

While our corporate clients have been drawing down on lines and accessing capital markets, our retail clients have cut discretionary spending on debit and credit cards[4] by over 20 percent as social distancing took hold in the beginning of March. Physical distancing measures have also impacted the Canadian housing market with sales activity retrenching, although house prices are largely unchanged. Although any recovery in the housing market will be gradual at first, we believe the risk of a sharp near-term price decline is low. Despite rising unemployment levels, we remain confident that our prime Canadian retail portfolios will continue to perform well, with the combined power of our own client relief programs and the government-led initiatives providing support to our clients.

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2 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, refer to page 12.

3 Pre-provision, pre-tax earnings is revenue net of PBCAE and non-interest expenses. This is a non-GAAP measure. For more information, please refer to page 12.

4 Retail transactions only.

Even though the Canadian retail mutual fund industry had its toughest month ever in March as markets experienced extreme corrections, RBC GAM continued to grow its leading market share in Q2 with a strong performance in February and a recovery in April. In other parts of the bank, activity levels have never been higher. We are benefiting from our significant investments in technology over the last number of years to provide alternative ways to deliver products and services to clients. We have seen a significant growth in digital banking volumes with mobile sessions[5] up 20 percent from last quarter as we ensure our clients' day-to-day financial needs continue to be met. We have also seen increased e-transfers and digital sales. And Direct Investing recorded all-time high volumes during the quarter. We are also proud to note that RBC has been ranked #1 in Overall Customer Satisfaction among the Big Five Retail Banks in the J.D. Power 2020 Canadian Retail Banking Satisfaction Study.

After delivering very strong results in Q1 2020 and early into Q2, we entered this period of heightened uncertainty from a position of strength. While much has changed in the past eight weeks, it is also important to focus on what has remained the same. We remain committed to creating long-term value for our clients and shareholders. We will continue to leverage our strong balance sheet, our leading scale and distribution capabilities across our franchises to prudently and efficiently support our clients. And we believe our past investments in building unique capabilities such as Borealis AI, InsightEdge and MyAdvisor will significantly differentiate us in the future, and enable us to deliver even more value for our clients. Several of our Ventures are also well positioned to support our clients, including Ownr, which helps entreprenuers manage their business and build their brand online; and Dr. Bill, which helps reduce the stress and complexity of medical billing for physicians. Our entire leadership team is focused on how RBC can emerge from this differently, and stronger for the future.

And with that, I'll turn the call over to Rod.

ROD BOLGER, CHIEF FINANCIAL OFFICER

Thanks Dave, and good morning everyone.

Starting on slide 8, we reported earnings of $1.5 billion and EPS[6] of $1.00 with results impacted by $2.8 billion of provisions for credit losses, up nearly 7 times from last quarter, which Graeme will touch on shortly. Pre-provision, pre-tax earnings[3] were up 3 percent from last year to $4.6 billion, driven by strength in Capital Markets, Investor & Treasury Services and Insurance; a testament to the continued strength and success of our diversified business model. Our record pre-provision, pre-tax earnings[3] through the first half of the year allowed us to prudently absorb over $3 billion of PCL[7] and still generate nearly $5 billion in net income. A few

5 Canadian Banking only.
6 Earnings per share (EPS).
7 Provisions for credit losses (PCL).

thoughts on expenses, which were essentially flat year-over-year. Excluding FX and $30 million of COVID-related costs, mainly in Canadian Banking, our expenses would have been down 1%[8].

Given the current environment, we saw a slowdown in costs related to marketing and travel, which were collectively down close to $40 million from last year. And recall, variable compensation largely acts as a natural hedge to lower market sensitive revenue. As Dave noted, the crisis is changing client behavior and we have seen an accelerated shift towards digital engagement. We would expect to see opportunities for cost savings going forward, assuming client preferences continue to trend towards digital interactions. Early last year, we spoke about managing our costs based on the earnings outlook and we remain diligent in this regard. However, as always, we will balance any project prioritization with our commitment to creating long-term value for our clients and shareholders. On taxes, our lower effective tax rate largely reflected changes in our earnings mix given the elevated PCL[7] taken this quarter was largely in jurisdictions with higher tax rates.

Before I get to the segment results, I wanted to add to Dave's earlier comments on capital. Moving to slide 9. We reported a strong CET1 ratio of 11.7 percent, down 30 basis points from last quarter. The largest driver of CET1 was related to an increase in credit RWA, which lowered our CET1 ratio by 41 basis points, through both unprecedented levels of draws and credit downgrades. Turning to slide 10 where we show our RWA composition by the probability of default. The composition of our largely Canadian Retail portfolio remained consistent from last quarter, underpinned by our high quality residential mortgage portfolio. In our Corporate portfolio, the majority of the credit line utilization was from our investment grade clients in Capital Markets, where the loan utilization rate increased by 9 percentage points from last quarter to 38 percent on April 30th. This is down from its March peak of 40 percent. Drawdowns from our Canadian Banking and City National commercial clients are more muted at this stage. The impact of credit downgrades this quarter was also largely from our Capital Markets loan book. We would expect the impact of credit migration on our Commercial portfolios to increase in the coming quarters.

I wanted to spend some time on the downside risks to our capital ratios. Our disclosures on slide 30 highlight the assumptions that went into our IFRS 9 calculations in late April. We have also run more severe stress test scenarios, including Canadian equity prices falling by more than 50 percent over the next 12 months and Canadian and U.S. GDP falling 18 to 20 percent. We also consider unemployment staying over 14 percent for a number of quarters, and not returning to 2019 levels for a number of years. While we believe these scenarios are unlikely, they do represent the inherent uncertainty still surrounding the health care and economic outcomes. In our severe scenario, we believe our CET1 ratio will remain well above our regulatory minimum. To provide additional colour – in a very conservative scenario of a one notch downgrade across all sectors and geographies in our well-diversified Wholesale portfolio. This scenario would result in the RWA

8 This is a non-GAAP measure. For more information, refer to Page 12.

density of these portfolios increasing by approximately 15 percentage points over a number of quarters, negatively impacting our CET1 ratio by approximately 115 basis points over time. Comparing this unlikely scenario to our 270 basis point buffer over the current regulatory minimum, which represents an RWA buffer of approximately $165 billion or a 30 percent increase above current RWA levels. Furthermore, our consistently strong organic capital generation will continue to act as the primary absorber of any credit deterioration. Also, should credit spreads normalize, we would expect a recovery in unrealized losses carried at fair value through OCI. These impacted our CET1 ratio by 19 basis points this quarter.

Moving to our business segment performance beginning on slide 11. Personal & Commercial Banking reported earnings of $532 million. Canadian Banking net income was $649 million, with pre-provision, pre-tax earnings[3] of $2.4 billion, which was relatively flat year over year. Strong volume growth was offset by lower net interest margins, down 2 basis points from last quarter due to the impact of lower interest rates. We continued our strong momentum in mortgages, up 9 percent over last year. However, as Dave noted, we are seeing a material slowdown in housing activity, and that is reflected in much lower mortgage application volumes since April 30th. We expect mortgage growth to slow to the mid-single-digits by year-end. Both Business and Personal deposit growth was strong, up 14 percent and 8 percent, respectively, providing a partial offset to margin pressures. While strong growth trends in our core chequing account continued into May, we expect trends to moderate from here. Non-interest revenue was impacted by lower Card service revenue as client purchase volumes declined as a result of the COVID-19 pandemic.

Turning to slide 12. Wealth Management reported earnings of $424 million, with pre-provision, pre-tax earnings[3] of $653 million down 16 percent year-over-year. The impact of market volatility contributed to mark-to-market seed capital losses in RBC Global Asset Management and unfavourable interest rate derivative valuation adjustments in City National. The impact of market volatility also drove unfavourable changes to our U.S. share-based compensation plans. Adjusting for these, our pre-provision, pre-tax earnings[3] would have been down 2 percent year-over-year[9]. Canadian Wealth Management benefited from higher average fee-based client assets, and an increase in transaction volumes driven by higher client activity. Global Asset Management AUM was up 7 percent from last year mainly due to strong net sales, including in our institutional businesses. Canadian retail net sales recovered well in April, particularly in our Money Market and long-term Fixed Income strategies. Very strong, double-digit volume growth at City National and fee based asset growth in our U.S. Private Client Group was offset by the cumulative impact of Fed rate cuts, as well as by higher costs to support underlying business growth. We expect City National's expense growth to slow over time as its elevated technology investments and regulatory costs begin to normalize.

[9] This measure excludes unfavourable changes in the fair value of seed capital investments, interest rate derivatives and the net change in our U.S. share-based compensation plans. This is a non-GAAP measure. For more information see page 12.

Moving to Insurance on slide 13. Net income of $180 million increased 17% from a year ago, mainly due to higher favourable investment-related experience and new longevity reinsurance contracts, partially offset by the impact of actuarial adjustments and lower benefits from favourable reinsurance contract renegotiations. While overall claims were largely flat from last year, we saw an increase in travel claims this quarter. We continue to help Canadians with their travel insurance claims, where trips have been interrupted or cancelled in light of COVID-19.

On to Investor & Treasury Services on slide 14. Record net income of $226 million increased 50 percent from a year ago, primarily due to higher funding and liquidity revenue, reflecting the benefit from interest rate cuts in the current quarter, as well as higher gains on the disposition of certain securities. Our Asset Services business benefited from higher FX revenues, reflecting increased client activity as a result of heightened equity and FX market volatility. Going forward, we would not expect to see the same level of benefits. We expect next quarter to be particularly challenged given our surplus liquidity position, lower asset valuations and more normalized client activity.

Turning to Capital Markets on slide 15. Capital Markets reported earnings of $105 million. Pre-provision, pre-tax earnings[3] of $1 billion, up 16 percent year-over-year, were our second highest level on record following our strong Q1 20 performance. The segment generated positive operating leverage of 6.5 percent with expenses kept flat as lower variable compensation costs were offset by higher costs to support business growth. Corporate & Investment Banking revenue was down 25% year-over-year, largely due to $229 million of unrealized mark-to-market losses in loan underwriting in the U.S. and Europe as high yield credit spreads widened significantly. M&A and IPO activity was muted given the market uncertainty. In contrast, we saw strong debt underwriting activity. Global Markets had a record quarter with revenue up a strong 37% from last year, largely due to higher fixed income trading revenue across all regions. Our Rates trading business performed well in the volatile interest rate environment. In addition, we saw higher earnings on our spreads in our repo business. Lower results in our equities business were driven by losses in our structured products business, given severe market dislocations in normal-course correlations.

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

GRAEME HEPWORTH, CHIEF RISK OFFICER

Thank you Rod and good morning everyone.

As Dave noted earlier, COVID-19 has had a significant impact on financial markets and the global economy. While significant progress has been made in slowing the virus and managing the economic fallout, the speed at which the economy recovers, the efficacy of government support, future potential waves of the virus and the availability of a treatment or vaccine, all remain highly uncertain and will continue to affect our risk profile going forward.

In response to these events, we increased our allowance for credit losses by $2.4 billion since last quarter, as you will note on slide 17. With this significant increase, we now have $5.9 billion in total allowances to absorb future loan losses. This represents 0.84% of all loans outstanding and 4.2x our net write-offs over the last 12 months. Nearly 90% of the increase in our allowance this quarter is a result of higher provisions on performing loans, up $2.1 billion from last quarter. This was primarily driven by unfavourable changes in our macroeconomic forecast to reflect the current economic conditions, but was also impacted by ratings migration and drawdowns, mainly in our Capital Markets loan portfolio. Additionally, two thirds of the increase related to our wholesale exposure, which spans Capital Markets, Personal & Commercial Banking and City National, and one third related to our retail exposure, which is predominately in Personal & Commercial Banking. The other 10% of the increase in allowances is due to higher PCL[7] on impaired loans.

Turning to slide 18. PCL[7] on impaired loans of $613 million, or 37 bps, was up 16 bps from last quarter, largely reflecting higher provisions in Capital Markets. These provisions were mainly related to the oil & gas and consumer discretionary sectors, reflective of the current macroeconomic environment. In Canadian Banking, provisions were up $39 million from last quarter. We had higher impairments in our collectively assessed commercial portfolio and higher impairments in our personal lending portfolio. In City National, provisions were up $18 million from last quarter, largely due to higher losses on previously impaired loans in the consumer discretionary sector.

Turning to slide 19. Gross impaired loans of $3.5 billion was up $593 million or 6 bps from last quarter, reflecting higher impairments in Capital Markets in the same two sectors I noted earlier. This was partially offset by lower impairments, mainly due to one real estate account that has returned to performing this quarter in our Canadian Banking commercial portfolio, and higher repayments in our Caribbean Banking portfolio. In addition, City National had lower impairments in its consumer discretionary sector, which was partially offset by higher impairments in the consumer staples sector. Outside of Capital Markets, the current macroeconomic weakness was not a significant driver of new impaired loans this quarter.

Turning to slides 20-23, I'd like to provide some colour on some of our more vulnerable sector exposures which include components of our consumer discretionary, commercial real estate, oil & gas, transportation and media sectors. Consistent with our broad and diversified portfolio, these sectors account for about 7% of RBC's total loans outstanding. Let me start with the oil & gas sector. About 90% of oil & gas provisions this quarter related to companies that have been struggling to recover from the 2015 oil downturn. Our exposure to this sector, which represents 1.3% of RBC's total loans outstanding, increased by 22% from last quarter, driven by higher draws on existing facilities, as well as new liquidity facilities that we provided to existing investment grade clients. The majority of our exposure to this sector is to E&P companies, which is predominantly done through a borrowing base lending structure, whereby loans are secured by the value of proven and producing reserves. About half of our oil & gas exposure is most sensitive to oil prices and many of those clients have hedged their production through the end of 2020. Our ACL coverage ratio for the oil & gas sector is now at 4% of our outstanding exposure and is slightly above the cumulative amount of provisions we took in this sector from 2015 to 2017.

For the other vulnerable sectors noted, clients have been affected by business closures, physical distancing measures and other government restrictions. Retail-related commercial real estate has been impacted by retail closures, creating challenges around tenants' ability to pay rent. Retailers and restaurant owners, with limited to no online presence, or that are independent businesses without access to broader corporate support, are being negatively impacted. Hotels have seen a substantial drop in occupancy rates, and recreational and media related companies have also seen a substantial drop in demand or have been forced to temporarily shut down. While each sector is unique, we feel that the support programs we have put in place for our clients, our consistent and prudent approach in our underwriting standards, and the various government programs available to them will all help mitigate potential loan losses. This is additionally supported by an allowance for loan losses of 1.1% of our total wholesale outstanding exposure.

Let me now discuss our retail portfolio, turning to slides 24 and 25. As I noted earlier, we had higher impairments in our personal lending portfolio and stable impairments for the remainder of our retail portfolio relative to Q1. Cards utilization rates have declined in April, and other revolving lines of credit have been stable through the quarter. 4% of our clients have taken advantage of our client relief program, but the pace of client take ups has subsided over the past few weeks. Our client relief program offers the opportunity for retail clients to defer certain payments for up to 6 months. Once these client relief options run their course, we do expect to see elevated delinquencies and insolvencies given the significant impact COVID-19 has had on the labour market. As reflected in our allowances, we expect the weak economic outlook to more acutely impact our cards and personal lending portfolios due to the unsecured nature of those products. Given our prime focus in retail, the vast majority of our clients' credit profiles remain strong and we are proactively assisting clients that may be facing hardship to help them navigate through this environment. While we are forecasting a decline in house prices, declining credit performance in our mortgage portfolio will be mitigated by the very strong credit profile of our clients, as reflected in the FICO distribution, as well as our strong security position, as reflected in the LTV profile.

Let me now discuss Market Risk on slide 27. We saw sizable market movements over a few weeks in March that were equivalent to, or greater than, those experienced over a number of months during the 2008 financial crisis. This volatility led to 13 days of mark-to-market losses. Four of those days exceeded VaR projections in March due to markdowns of the loan underwriting portfolio, a counterparty default and significant market volatility. In April, trading businesses were able to capitalize on the reopening of primary markets and better secondary market activity, as markets recovered and volatility subsided. Average market risk VaR increased from Q1, due to wider credit spreads and market volatility that impacted our loan underwriting commitments, as well as fixed income and equity portfolios. Going forward, we do expect our average VaR to be at higher levels than it has been historically, as the volatility experienced in March will be reflected in our VaR methodology for the foreseeable future. Having said that, VaR has now declined by approximately 25% from its March peak, as a result of reduced loan underwriting exposure and improved market conditions.

As I noted in early 2019, our leveraged finance business employs an underwrite-to-distribute model 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. For our loan underwriting activities, our primary protection against market volatility is in the form of price flex that helps mitigate against spreads widening during the distribution period. Given the significant market volatility noted earlier, we saw spreads widen in the quarter beyond our flex protection. These spread movements have all been reflected in the valuations Rod mentioned earlier and referenced on slide 12. We ended Q2 with a committed loan underwriting book of $3.9 billion and market activity in May has allowed further reductions subsequent to quarter end. Our overall approach to leveraged lending, including the portion we retain, continues to adhere to our disciplined risk management approach. The committed portfolio size is largely unchanged over the past year; it is a very well diversified portfolio with no sector representing more than 16% of the portfolio; and single name concentrations kept relatively small.

To conclude, our history of prudent underwriting, the prime nature of our retail portfolios and the diverse nature of our wholesale portfolios serve as strong mitigants against the deteriorating macroeconomic conditions that have arisen as a result of the COVID-19 pandemic. We believe we have taken appropriate provisions to reflect these deteriorating external conditions. Based on our current view of the economic outlook, we believe that PCL[7] on performing loans this quarter have reached a high watermark. However, as I noted at the beginning of my remarks, there is great uncertainty with respect to the speed at which the economy recovers, the efficacy of government support, future potential waves of the virus and the availability of a treatment or vaccine, which may impact provisions in the future. We expect impaired loans and the associated losses to be muted in the near-term, given the prevalence of client relief options, with a more material impact beginning to show once the relief options run their course. As a result, we anticipate our PCL[7] on impaired loans to trend higher through the latter portion of 2020 and into the start of 2021. We expect to be able to draw down on the allowance on performing loans we built this quarter such that our total allowances won't materially change as loans become impaired. Drawing down on our allowance on performing loans will partially offset the expected PCL[7] on impaired loans we're anticipating.

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

DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Thanks, Nadine, and thanks, everyone, for your calls. I recognize how difficult the last 2 days have been for the analysts and particularly this morning with 2 banks reporting. There are 3 themes that I was hoping that you took away from our commentary. And as many of you have noted, the enhanced disclosure that we provided to give clarity on the strength and power of our franchise. Number 1, our strong financial position. The diversification of our business model and the scale (we have talked about this on almost every call for the last 5 or 6 years) really showed again in time of crisis, and with balance sheet strength we've been preparing (as we said in our comments) for a recession sometime in 2022. This has caused us to approach and build our capital to not make acquisitions and not buy back shares, and therefore, we started this crisis which we didn't see coming with a very, very strong 12 percent CET1 ratio. And you see after a crisis, we took over $2.8 billion of charges with CET1 ratio of 11.7 percent. So that our diversified model, the size and scale of our business, the capital base, the fortress balance sheet really give us an opportunity to support our clients to absorb the uncertainty with resilience and to take advantage of opportunities going forward. I think we're in a very good position to do all three. I also hope from our disclosure, from the commentary, from how we've approached the uncertainty of the health and economic outcomes, the conservatism with which the management team here at RBC has approached this from the reserves we've taken, from our approach, you will see that we're taking a very conservative or base case, as you heard Graeme describe, is quite a severe scenario, and you should dig into that, but we've approached this entire crisis with a very conservative approach to protect our balance sheet, to protect our shareholders. But third is very strong earnings power. We exited Q1 2020 with a fantastic quarter, and are carrying that momentum. And you saw a very strong pretax, pre-provision earnings[3], and that speaks again to the diversification, the quality of our client franchise. So our conservatism, our strength, the diversification and earnings capability position us well to withstand the uncertainty and turn around and exit this a stronger bank and a bank that can take advantage of the opportunities that will present itself in the future. So thank you very much for your questions, and we look forward to talking to you over the coming 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 pre-provision pre-tax earnings, expenses excluding FX and $30 million of COVID-related costs, and Wealth Management results excluding unfavourable changes to our U.S. share-based compensation plans, 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 Q2/2020 Report to Shareholders and our 2019 Annual Report.

Definitions can be found under the “Glossary” sections in our Q2/2020 Supplementary Financial Information and our 2019 Annual Report.