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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 August 26, 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, risk-weighted assets (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”.

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We caution that the foregoing list of risk factors is not exhaustive and other factors could also adversely affect our results. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Material economic assumptions underlying the forward looking-statements contained in these speakers’ notes are set out in the 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 Q3 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 and Significant Developments: COVID-19 sections of our Q3 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. To give everyone a chance to ask questions, we ask that you limit your questions and then re-queue.
With that, I’ll turn it over to Dave.

DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Thanks, Nadine, and good morning, everyone. Thank you for joining us today. We hope you and your loved ones are keeping safe and well in this period of uncertainty. Our main focus remains ensuring the health and well-being of our employees, and standing by our clients and communities in these challenging times.

Against the pandemic backdrop, we are actively supporting our clients through numerous relief options, through financial advice, and proactive client outreach to meet their needs. Since the onset of the pandemic, we have enabled over 500 thousand clients globally through our various payment deferral programs. At the end of July, the outstanding exposure that has been deferred has reduced significantly as many of our clients rolled off the deferral programs during the quarter. Many clients took deferrals as a precaution, and we expect most to resume payments when deferrals expire. We had noticed last quarter that Canada’s finances were well-positioned should further actions be required, and since then we have seen an extension of federal income support programs. The combination of these government and client support programs, strong equity in homes, and elevated savings rates along with strong bank balance sheets provide us with comfort around the transition to the next phase of the economic recovery.

In Canada, in addition to client relief programs, we are also committed to supporting a recovery in the small business sector, which is critical to the broader economic recovery. Through the launch of Canada United, we’re bringing together government, businesses associations and more than 50 of Canada’s leading brands to rally consumers and give local businesses the support they need to re-open during these uncertain times. We also launched Points for Canada, a program to help stimulate local economies by giving increased RBC Rewards to our clients as they dine and shop in Canadian restaurants and stores. We are optimistic the strength and breadth of our market leading rewards proposition, coupled with strong partnerships, will provide value to clients and support businesses at the heart of our communities.

I will now speak to our Q3 financial performance in the context of the macro environment and client activity. Today we reported earnings of $3.2 billion. Our strong pre-provision, pre-tax earnings1 of over $4.7 billion added to our capital buffer this quarter while absorbing the impact of higher provisions for credit losses (PCL) and lower interest rates. Our resilient earnings continue to support dividend payments – a commitment we have upheld throughout our 150 year history. This quarter we paid $1.5 billion in dividends or nearly half of our net income to our over one million retail and institutional shareholders, the majority of whom are based in Canada.

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1 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 14.
Our CET1 ratio of 12% now provides a $16.5 billion buffer over the current regulatory minimum of 9%. This is in addition to over $6 billion in allowance for credit losses. Our internal stress testing suggests that even under a severe pandemic scenario, our capital levels will remain well above the 10% minimum set by OSFI prior to the pandemic. It is also important to remember that our businesses have already experienced a stressed event over the last 5 months, and our allowance, capital and liquidity ratios are all consistent or better than where they stood at the end of January.

In looking at economic drivers, as the Canadian economy slowly opens up, we are seeing signs of a recovery in Canadian consumer spending. As stores continue to open, we have seen our over 9 million card holders spend more this July than last year, the first year-over-year positive trend since mid-March. We are also seeing strong activity in housing markets across North America. In Canada, home sales, house prices and housing starts have shown surprising resilience, partly reflecting pent-up demand and low interest rates.

We recorded very strong mortgage growth of 10% year-over-year, picking up from similarly robust levels at the start of the year. Our e-signature solution is helping our mortgage specialists in the field, and our clients are benefitting from investments we made in digital tools to allow for self-serve renewals. While it is too early to comment on the sustainability of these trends, we will continue to help Canadian homeowners while supporting balanced growth in the market. As always, we place emphasis on the quality of the borrower and we will not compromise our risk profile to add mortgage volumes. Although labour markets remain soft relative to the beginning of the year, they are showing a positive trend. The Canadian job market has recovered over half of the 3 million job losses seen in March, outperforming the U.S. recovery on a relative basis. From a macro perspective, we have also seen rising oil prices and signs of a recovery in the manufacturing sector.

The combination of these factors have contributed to the rise of equity markets to record levels and the normalizing of credit spreads towards pre-pandemic levels. While we are seeing early and encouraging signs of an economic rebound from the depths of March, uncertainty remains over the timing and shape of the recovery. The real test of the recovery will come once government support programs start to wind down. We anticipate the fall will be a challenging time and that’s why we’re proactively reaching out to clients to see how we can continue to help. In addition, we are cognizant of the potential economic threat of a second wave of COVID. Given these and other risks, we took prudent action in updating our economic scenario-weightings to put a greater emphasis on downside scenarios under IFRS-9. Graeme will speak to our assessment of our allowance for credit losses.

Let me now shift to what we’re seeing in the corporate and institutional markets. This quarter, Capital Markets benefited from continued robust client activity at the end of Q2, resulting in record earnings for this segment this quarter. As credit markets continued to open following the extraordinary intervention by global
central banks last quarter, we supported significant client financing demands, resulting in strong debt underwriting.

Our commitment to our clients resulted in RBC Capital Markets winning Best Investment Bank in Canada for the 13th year in a row according to Euromoney magazine\(^2\). This quarter, we also saw strong equity underwriting activity, which continued into early August with RBC Capital Markets serving as an active bookrunner on Rocket Companies’ $1.8 billion IPO. Our strong trading performance, which highlights the countercyclical nature of some of our revenue streams, benefitted from elevated client activity in this period of market stress. In marked contrast, M&A activity generally remains muted as the macroeconomic and political uncertainty are giving CEOs pause in most sectors outside of healthcare and technology.

Our Wealth Management businesses maintained their number one position in Canada, and RBC Global Asset Management surpassed $500 billion of AUM for the first time as our clients continue to trust us with their assets throughout the cycle. And U.S. Wealth Management also performed well with AUA rising to a near record high in U.S. dollar terms. City National continued to see very strong loan growth, with loans nearing 50 billion U.S. dollars and also saw very strong deposit growth.

While our core franchise continues to grow and add clients, the current low interest rate environment negatively impacted results this quarter. This impact was exacerbated by a shift in asset mix and a material increase in enterprise-wide liquidity, which Rod will speak to. We have been a source of strength and stability for clients during this period, and this is reflected in the significant 16% year-over-year growth in average deposits across our segments. Our retail and business clients are not only depositing government support payments into their chequing accounts, but have seen a drop in cumulative cash outflows due to bank support programs and social distancing requirements. These higher savings rates have positive implications for credit quality. Furthermore, we are seeing the benefits of our multi-year investments in digital and analytical capabilities in our custody business. We are seeing increased client deposits as mid-size global asset managers face challenging conditions.

To sum up, we are pleased with our results this quarter. Our strong performance has its origins in deliberate decisions made well before the start of the pandemic. The resiliency of our balance sheet is underpinned by our focus on strong underwriting standards and maintaining a high quality portfolio in both Canada and the United States. Also, following the global financial crisis, we exited a branch-heavy U.S. footprint and instead focused on consolidating our lead in Canada, and growing our U.S. wealth management, private banking and capital markets franchises. Despite the challenging interest rate outlook, we are not changing our long-term strategy we highlighted at our last Investor Day.

\(^2\) Euromoney, 2020.
In Canadian Banking, we continue to execute our growth and technology strategy to capture a larger portion of personal chequing accounts and residential mortgages. These are important anchor products, and they are an important driver of our premium ROE\(^3\). Our leading Wealth Management platform adds to our continuum of offerings to our retail clients, while also being accretive to ROE\(^3\). Our deep relationships with our clients provide us with data insights that allow us to better understand their needs and help advise them on important financial decisions. And knowing our clients well is also of great value for the purposes of risk management. And on this point, 85% of our mortgage clients had an existing relationship with us before requesting mortgage funding. Nearly 95% of our mortgage clients have more than one product with RBC, with the majority having a chequing account. And 19% of our clients have all four of transaction accounts, credit cards, investments, and borrowing products with RBC.

Our strategy also remains unchanged in the U.S., where we are well-positioned to capitalize on our investments and the synergies across our Capital Markets, Wealth Management and City National platforms. In U.S. Wealth Management platform, including City National, we expect to benefit from the growth of our jumbo mortgage portfolio, our recent expansion into new geographies and the hiring of experienced private bankers and financial advisors. Our global Capital Markets franchise provides yet another source of fee-based revenue as we increasingly emphasize deepening client relationships to drive growth in non-lending revenue. While we remain focused on creating the bank of the future, cost management will be an increasing priority as we look to deliver long-term, sustainable value.

I wanted to close by sharing some perspectives on how RBC is living our Purpose of helping clients thrive and communities prosper in a time of social and economic disruption. There’s no question the health crisis has put a spotlight on many challenges that make society less resilient and more vulnerable. Finding ways to build back stronger from this crisis provides all of us with a once-in-a-lifetime opportunity to reimagine tomorrow. We have every intention to seize the moment and continue to transform our company for those we serve – creating meaningful and long-lasting value. This focus includes our recently launched action plan to tackle the fact that Black, Indigenous and People of Colour have been disproportionately disadvantaged for far too long. Our plan addresses significant factors impeding the ability of these communities to compete equally in opportunities for economic and social advancement. As part of this plan, we will increase our staffing targets for BIPOC executives from 20% to 30%. Another critical area is climate. We continue to push forward with RBC’s Climate Blueprint, and just this month we became the first Canadian bank to sign a long-term renewable energy power purchase agreement. Finally, for the 19th consecutive year, RBC has been named to the FTSE4Good Index, which measures the performance of companies demonstrating strong ESG practices. This year, our percentile ranking among the banking sector rose to the 98th percentile.

\(^3\) 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 14.
With that, I’ll pass it over to Rod.

**ROD BOLGER, CHIEF FINANCIAL OFFICER**

Thanks Dave, and good morning everyone.

Starting on slide 7, we reported earnings of $3.2 billion and earnings per share (EPS) of $2.20 while absorbing $675 million of provisions for credit losses. Pre-provision, pre-tax earnings\(^1\) of $4.8 billion were up 6% from last year, largely driven by significant strength in Capital Markets, with solid growth in our Insurance and our non-U.S. Wealth Management businesses. Before I turn to segment results, I will discuss three key topics of interest – capital, net interest margins and expenses.

Moving to slides 8 and 9, we reported a strong CET1 ratio of 12%, up 30 basis points from last quarter. Our capital build was underpinned by strong retained earnings, adding 37 basis points to our CET1 ratio this quarter. In addition, we saw pay downs of credit facilities in Capital Markets, in contrast to last quarter. We have also seen Canadian Commercial lending utilization levels trend lower from last quarter in nearly all our sectors. And as credit spreads continue to normalize from their elevated peak in March, we saw a partial recovery in the unrealized losses we recorded in OCI last quarter. These positives were partially offset by higher market risk RWA, underpinned by an update to the historical period used to compute stressed VaR to more reflect the market volatility seen earlier this year.

I will now spend some time on RWA migration in our credit portfolios. This quarter, we recorded a further $2 billion of credit downgrades, adding to the over $9 billion recorded last quarter. The downgrades have largely been in our corporate portfolios in Capital Markets, with over half related to COVID-19 vulnerable sectors. Following a detailed review of the corporate portfolio last quarter, the rate of corporate credit downgrades slowed materially this quarter. We did see a slight deterioration in our Canadian commercial portfolios, and we expect the gradual impact of credit migration in these portfolios to continue in the coming quarters. Given government and bank support programs, and the high quality profile of our clients, we have yet to see any significant negative ratings migration in our Canadian retail portfolios. To provide some additional color; we stress tested our retail portfolios under client support programs to levels well beyond our expectations and current loss estimates. Even if our retail accounts under our deferral programs become delinquent at a 10% rate, incremental impact to our CET1 ratio from RWA inflation would be manageable at less than 10 basis points. And, as seen this quarter, our strong, recurring earnings stream will continue to act as the primary absorber of any deterioration. Absent a further meaningful economic downturn, we expect our CET1 ratio to remain at approximately 12% by the end of Q1 2021 as capital generation is offset by risk migration and the reduction in OSFI’s transitional capital modification for ECL provisioning.
Now moving on to net interest margins on slide 10. Our enterprise NIM declined 12 basis points quarter-over-quarter, largely due to the impact of both the Bank of Canada and the Federal Reserve cutting interest rates by 150 basis points in March. Recall, we had previously disclosed an immediate and sustained 100 basis point shock would have a negative impact to our revenue of over $600 million over a 12 month period as of Q1 2020. The impact to our NIM this quarter from such an interest rate shock was increased by elevated liquidity levels at the enterprise level, with low-yielding cash and investment balances up $146 billion from last year. Our elevated LCR translates into a surplus of $127 billion over the regulatory minimum. At a segment level, Canadian Banking NIM declined 12 basis points quarter-over-quarter – or 14 basis points over the last 2 quarters – due to three main factors: First, the impact of lower interest rates on deposit margins was the largest driver of the compression in NIM. Our current mix of personal deposits has a greater proportion of non-interest bearing, low-beta chequing accounts, which do not reprice in parallel with movements in benchmark interest rates. Another headwind this quarter was the change in asset mix underpinned by the decline in higher-yielding credit card balances, as well as strong growth in lower-spread Canadian mortgages to a lesser extent. In contrast, deposit growth had a positive impact. Very strong, double-digit growth in higher margin chequing accounts and business deposits far surpassed solid growth in interest-bearing GICs, which themselves were up 9% year-over-year. Although our leading exposures to chequing accounts and credit cards resulted in a drag to our NIM this quarter, both these products provide important strategic benefits, and continue to underpin our leading Canadian Banking net interest margin.

Moving to City National, where NIM was down 33 basis points relative to last quarter. The impact of lower interest rates on loan yields was more pronounced given the structure of the balance sheet where the majority of our loans are variable rate. This was partially offset by lower deposit and wholesale funding costs. On an enterprise level, we expect liquidity to remain elevated over the near-term. And we would expect lower wholesale funding needs in the coming months given our strong deposit growth.

Now moving to expenses, which were up 6% year-over-year, largely due to higher variable and stock-based compensation. Excluding these and FX, all-bank expense growth would have been relatively flat relative to last year. Furthermore, COVID-specific costs added over $90 million of expenses in the quarter from special compensation costs for certain employees and increased cleaning. In contrast, marketing and travel costs were down $90 million as part of a 16% reduction in discretionary expenses from last year.

On a segment basis, Canadian Banking limited expense growth to less than 2% year-over-year. Excluding COVID-specific costs, Canadian Banking expenses would have declined 2% from last year. Both Insurance and I&TS expenses were down 6% from last year. Despite higher variable compensation, both Capital

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1 OSFI announced a series of regulatory measures and provided additional guidance to allow banks to focus on their resilience efforts and to enhance the financial system’s stability throughout March and April 2020. These modifications have provided additional flexibility in lending activities permitting banks to fall below the regulatory minimum through the use of available buffers above the regulatory authorized minimum for the Liquidity Coverage Ratio (LCR) and temporary modifications in limits, including those used for covered bonds, and adjustments to other liquidity metrics. For more information, see Page 14.

2 This is a non-GAAP measure. For more information, refer to Page 14.
Markets and our non-U.S. Wealth Management businesses reported positive operating leverage. U.S. Wealth Management expenses were up 12% year-over-year in U.S. dollars, or less than 3% excluding the impact of our U.S. share-based compensation plan. And we expect City National’s expense growth to continue to slow over time following elevated growth in our back office, technology and regulatory costs in recent periods. We also expect to slow our recent, accelerated hiring growth strategy. We remain diligent in managing our all-bank cost-base as we continue to balance project prioritization with our commitment to creating long-term value for our clients.

Moving to our business segment performance beginning on slide 11. Personal & Commercial Banking reported earnings of $1.4 billion. Canadian Banking net income was $1.3 billion, with pre-provision, pre-tax earnings of $2.3 billion, down 8% from last year. Net interest income was lower year-over-year as solid loan growth of 6% and very strong deposit growth of 18% were offset by the impact of significantly lower interest rates. Fee-based revenue was also affected by the impact of COVID-19 as lower transactional activity resulted in lower service charges. Also, the decline in cross-border travel impacted FX fees. As we see a re-opening of economies over time, we expect to see these revenue streams start to recover.

Turning to slide 12. Wealth Management reported earnings of $562 million. Pre-provision, pre-tax earnings of $803 million were down 5% year-over-year, largely due to lower interest rates. Canadian Wealth Management revenue declined 2% from last year as lower client transactional activity, and lower interest rates offset higher average AUA. Global Asset Management revenue increased 7% year-over-year with AUM up 13% from last year to record levels mainly due to a combination of strong U.S. institutional and Canadian retail flows, and constructive equity and bond markets. Canadian retail net sales were strong in short-term Money Market strategies in May, and then long-term Fixed Income mandates in June and July. Very strong volume growth at City National was more than offset by lower interest rates. Loan balances increased $11 billion or 29% year-over-year in U.S. dollars. Loan growth excluding the impact of PPP loans was still up a very strong 17%. City National deposits were up $17 billion or 38% from a year ago. We also saw strong growth in our U.S. Private Client Group, with AUA up $28 billion in U.S. dollars from a year ago. The revenue benefits from very strong volume growth in our U.S. Wealth Management businesses were more than offset by the impact of lower interest rates. This quarter also saw favourable accounting volatility on interest rate swaps in City National, mark-to-market seed capital gains in Global Asset Management and our deferred compensation plans in U.S. Wealth Management - a partial reversal of last quarter’s losses.

On slide 13, we discuss our Insurance segment, which provides an important, diversified source of earnings that is less exposed to spread revenue and credit risks. Net income of $216 million increased $12 million or 6% from a year ago, mainly due to higher favourable investment-related experience and improved claims.

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6 Expenses net of U.S. WAP (gains)/losses, which were US$100MM in Q3/20, is a non-GAAP measure. For more information, see page 14.
experience. These factors were partially offset by the impact of longevity reinsurance contracts in the prior year.

On to Investor & Treasury Services on slide 14 where net income declined to $76 million. As we guided to in May, results were particularly challenged this quarter. Our Funding & Liquidity business was most impacted by the servicing of the bank’s elevated liquidity position. In addition, lower revenue reflected the unfavourable impact from prior period interest rate movements, partially offset by tightening credit spreads towards pre-COVID levels. These results do not reflect our expected run rate going forward. In contrast, our Asset Services custody business had a solid quarter as FX revenue benefited from increased client activity resulting from volatility in FX markets, and lower expenses driven by disciplined cost management initiatives.

Turning to slide 15. Capital Markets reported record earnings of $949 million. Pre-provision, pre-tax earnings¹ of $1.3 billion were also the highest level on record reflecting the strength of our global franchise. Corporate & Investment Banking revenue was up 12% year-over-year to a near record $1.1 billion, partly due to recoveries in loan underwriting marks as we were able to sell off deals following the thawing of leveraged loan markets. The narrowing of high yield credit spreads also helped in this regard. Also contributing were strong debt and equity underwriting fees, which benefited from low interest rates and constructive equity markets, respectively. These more than offset what remains a muted M&A advisory environment. As our corporate clients feel increased comfort around their own balance sheets and the stability of their operations, we have seen debt underwriting activity begin to slow. We have also seen material pay downs of previously drawn credit facilities. Global Markets also had a very strong quarter with revenue up 60% from last year to $1.8 billion. Record performance in FICC was underpinned by strong credit trading, which benefited from narrowing credit spreads. Rates trading continued to benefit from client demand in the midst of continued global central bank actions. Equities trading was also robust, benefiting from continued market volatility and a recovery in our structured products business following severe market dislocation last quarter. However, as volatility subsides, we would expect the trading performance to moderate. With that, I’ll turn it over to Graeme.

GRAEME HEPWORTH, CHIEF RISK OFFICER

Thank you Rod and good morning everyone. Starting on slide 17. This quarter we continued to build our allowance for credit losses on loans to $6.1 billion, up $200 million from last quarter. The increase in our reserves is mainly attributable to provisions on performing loans in our retail portfolio, reflecting the ongoing uncertainty related to the COVID-19 pandemic.

Our ACL is based on macroeconomic forecasts that were generally unchanged from last quarter, though we did see some improvement in our equities, oil and housing price forecasts. Also, the actual Canadian unemployment rate in calendar Q2 was better than we had forecast last quarter. We also updated our
scenario weights to put greater emphasis on our downside scenarios to reflect the increasing uncertainty about how the economy will perform through the fall as a number of government support and payment deferral programs roll off. Overall, our ACL represents 0.89% of all loans outstanding, up from 0.53% six months ago. This represents 4.3x our net write-offs over the last twelve months and positions us well for an expected rise in impairments.

Let me now discuss PCL on impaired loans on slide 18. Provisions of $398 million, or 23 bps, were down 14 bps from last quarter, largely reflecting lower provisions in Capital Markets and Personal & Commercial Banking. In Capital Markets, provisions were down $199 million from last quarter. While we continued to incur provisions in some of our more vulnerable sectors due to the pandemic, we took fewer provisions in our oil & gas and consumer discretionary sectors this quarter compared to last. In Canadian Banking, provisions were down $75 million from last quarter, reflecting lower provisions across our retail portfolios, mainly due to the impact of payment deferral and government programs. This was partially offset by higher provisions in our commercial portfolio. In Wealth Management, provisions were up $28 million from last quarter, largely reflecting higher provisions in U.S. Wealth Management, including the write-off of one account at City National in the industrial products sector.

Turning to slide 19. Gross impaired loans of $3.9 billion was up $328 million or 6 bps from last quarter, reflecting higher impairments across our major lending segments. In Wealth Management, we had higher impairments on a couple of investment accounts. In our Canadian Banking commercial portfolio, we had higher new formations, mainly in our real estate, other services, and consumer discretionary and staples sectors, and fewer loans returning to performing. In our small business portfolio, we had higher new formations in sectors most vulnerable to the impact of COVID-19, mainly in the Greater Toronto Area. Most of these loans are government guaranteed. And, in our retail portfolio, we had lower new formations in our personal lending portfolio and fewer write-offs in our cards portfolio. In Capital Markets, we had lower new formations in the oil & gas sector, partially offset by higher repayments in the utilities and oil & gas sectors and higher write-offs in the industrial products sector.

Turning to slide 20, our exposure to sectors most vulnerable to the impact of COVID-19 decreased by 7% from last quarter due to pay downs of credit facilities by our clients. Overall, our exposure to the most vulnerable sectors represents only 7% of RBC’s total loans outstanding. This quarter, 27% of PCL on impaired loans and 46% of impairments pertained to these sectors. We also saw a slowdown in credit migration related to COVID-19, as credit rating assessments in our Capital Markets portfolio mainly occurred throughout Q2. The credit rating assessment in our Canadian Banking commercial portfolio is over one third complete and we expect to have substantially completed our review by the end of the year.

On slide 21, we have provided some additional information in relation to the Commercial Real Estate portfolio. Overall, this portfolio is well diversified across geographies and industry segments and has been
underpinned by strong underwriting standards. The Retail property segment represents 1.6% of our total loans & acceptances outstanding. This segment remains under pressure due to ongoing physical distancing measures and the rise of online activity. Due to headwinds that pre-date COVID-19, we have long been cautious in our client strategy and underwriting standards for this segment. A significant portion of this book is comprised of Class-A malls with strong backing from investment grade clients, as well as grocery anchored retail properties which have performed well during the pandemic.

In the Office property segment, strong rent collections continue for both large and small landlords. We expect that any impact of the work-from-home trend on this segment will play out gradually, and our clients will have time to adapt given the typical term of an office lease is 5 to 10 years. Again, our underwriting standards have been strong with less than 2% of our office portfolio having both an LTV greater than 75% and debt service coverage ratio of less than 1.25x. Overall, we believe the impact of COVID-19 on our Commercial Real Estate portfolio is mitigated through prudent underwriting and sound loan structures including a combination of low LTVs, guarantees, and debt service coverage requirements built to withstand high vacancy rates.

Let me now provide some colour on our client payment deferral programs across Canadian Banking’s retail and commercial portfolios starting on slide 23. As I noted earlier, we experienced lower delinquencies and impairments this quarter as clients had the ability to defer certain payments for up to 6 months. Overall, client demand for new deferrals has largely abated and overall active deferral balances have declined as our broad client support programs come to an end.

Slide 24 provides some context around both the performance and risk profile of our Canadian Banking retail deferral program to date. Of the nearly $23 billion in retail deferrals that ended their deferral terms since March, 80% have resumed regular payments, 19% have extended their deferral period for an additional 2 to 3 months, generally not exceeding a 6 months deferral period, and only 1% have become delinquent. Additionally, we have seen clients continue to make payments during their deferral period. While we view this as credit positive and consistent with our expectations, the level of payment activity is materially driven by factors such as operational ease, the economic cost of the deferral for the client and the nature of the product. Substantially all of the remaining $39 billion in retail deferrals are set to expire by November. Based on the deferral performance to date, along with insights we have around the level of client cash balances and the degree of income disruption, we are confident that we will continue to see the majority of our clients with active deferrals resume regular payments.

However, there will be clients who are unable to resume regular payments due to loss of employment or income. And so, we do anticipate an uptick in delinquencies and insolvencies once these deferrals expire, given the significant impact COVID-19 has had on the labour market and many businesses. With the significant level of security and guarantees supporting our deferred loan balances, we are well-positioned to
address this expected increase in delinquencies and impairments. Looking at our residential real estate portfolio as an example, only 0.2% has a deferral, is uninsured and has an LTV greater than 80%.

Let me now discuss Market Risk on slide 25. Overall market volatility and credit spreads have improved since last quarter, which has helped reduce the risk profile of both fixed income and equity portfolios. When combined with a reduction in our active loan underwriting commitments this quarter by 58% to $1.7 billion, it contributed to a steady decline in VaR through the quarter.

To conclude, our PCL on impaired loans and associated losses were muted this quarter given the continuation of deferrals and other client relief programs. As these programs roll off, we do anticipate PCL on impaired loans to trend higher in Q4 and through the first half of 2021. At this time, we believe our allowances for credit losses prudently reflect our current view of the difficult economic outlook as well as the quality of our portfolio. However, as I noted earlier, there is great uncertainty which we reflected by putting greater emphasis on our more pessimistic scenarios. For context, our primary pessimistic scenario has the Canadian unemployment rate elevated at around 10% until June 2022 and house prices declining by 8% and remaining depressed until mid-2023. Should a scenario like this play out, we could see our ACL on performing loans increase by approximately 25%. However, 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.

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

DAVE MCKAY, PRESIDENT & CHIEF EXECUTIVE OFFICER

Thanks, Nadine. I will summarize some of the key themes, some of which came out in our speeches, but not necessarily in the Q&A.

One is diversification of our business, again, through a challenging time, you saw the benefits of our diversified model. We had exceptionally strong results in our capital markets operation. We did not get to touch on that in the Q&A, but again, helped us provide earnings buffer against any uncertainty around our credit position. We saw very strong client volumes across our businesses. As you saw from the retail bank, mortgages, core banking, capital markets, institutional, trading, equities, credit trading, great DCM volumes, very strong volumes on the lending and deposit side in City National and very strong Wealth Management Canada performance. So client activity remains strong. We continue to take prudent market share. And it's really the investment in technology we have made. We have increased our channel capabilities. We have increased our risk capabilities, our analytics capabilities, and that investment in technology is playing through all our capabilities and has really started to, I think, show the benefits, particularly this quarter. The strength and resilience of our balance sheet and our reserving and our risk management capability, I think, was
strongly represented this quarter. We are being very prudent. As I said, we have seen strong recovery so far and whatever it is like checkmark or whatever recovery scenario you are planning for. We have seen strong recovery, but we are not all the way back to where we were pre-COVID, obviously. And therefore, we are taking a prudent view. And it may take 1 or 2 years for us to get back to where we were before and recover all the jobs. And therefore, with the uncertainty of re-contagion, we are being cautious. With the strength of a strong balance sheet, strong liquidity. And as a number of you asked and the responses, Graeme and Neil gave, the amount of equity clients can have in their homes is quite significant, particularly those who have deferred payments with us and therefore, the ability for us to be patient and work with them and help them through this is a significant asset. And therefore, that combined with appropriate reserving for those situations that may not work out, we feel very good about where we are. Our ability to continue to grow the business, continue to manage franchise in an uncertain time. So I think those are some of the themes that I wanted to reinforce.

We really appreciate your questions and your comments. Thank you for attending our Q3 call, and we look forward to talking to you again in Q4.

Thanks, operator. We will now close the call.

**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 variable and stock-based compensation, 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 Q3/2020 Report to Shareholders and our 2019 Annual Report.

Definitions can be found under the “Glossary” sections in our Q3/2020 Supplementary Financial Information and our 2019 Annual Report.