ROYAL BANK OF CANADA SECOND QUARTER RESULTS CONFERENCE CALL THURSDAY, MAY 26, 2022

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In addition, as we work to advance our climate goals, external factors outside of RBC's reasonable control may act as constraints on their achievement, including varying decarbonization efforts across economies, the need for thoughtful climate policies around the world, more and better data, reasonably supported methodologies, and technological advancements, the evolution of consumer behavior, the challenges of balancing interim emissions goals with an orderly and just transition, and other significant considerations such as legal and regulatory obligations.

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Additional information about these and other factors can be found in the risk sections and Impact of COVID-19 pandemic section of our 2021 Annual Report and the Risk management section of our Q2 2022 Report to Shareholders.

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ASIM IMRAN, VICE PRESIDENT, HEAD OF INVESTOR RELATIONS

Thank you, and good morning everyone.

Speaking today will be: Dave McKay, President and Chief Executive Officer; Nadine Ahn, Chief Financial Officer; and Graeme Hepworth, Chief Risk Officer. Also joining us today for your questions: 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

Good morning everyone, and thank you for joining us. Today, we reported earnings of $4.3 billion with earnings per share up 7 percent from last year. Revenues were modestly lower year-over-year, largely due to moderating Capital Markets revenues given unfavourable market conditions. This was partly offset by strong client-driven volume growth in Canadian Banking and City National, and solid Wealth Management client activity. Expense growth was only 1 percent.

Before I share context on our earnings this quarter, I want to acknowledge the increasingly complex macro and geopolitical environment. As Russia's invasion of Ukraine drives on with devastating effects, we continue to stand with the people of Ukraine and – consistent with our Purpose – are supporting the humanitarian relief efforts in the region as well as the Ukrainian diaspora in Canada. From a macro perspective, while I noted last quarter that we were closer to mid-cycle economic growth, the ongoing impact of Russia's invasion has added further complexity to existing challenges – from elevated inflation, a rapid tightening of monetary policy, supply chain disruptions, and shortages in energy, labour and housing supply. And central bank actions are having a profound impact on both bond and equity markets, and in turn, impacting Capital Markets activity.

Central banks are facing increasingly difficult decisions in how to manage monetary policy to constrain inflation without impacting economic growth. Given low unemployment, rising wages, and elevated liquidity, we believe the key ingredients are in place to help mitigate any sustained slowdown. In this context, I will now speak to our proven business model, which generated a strong 18 percent Return on Equity (ROE) this quarter, underpinned by the strength of RBC's financial position, our diversified revenue streams, and our balanced growth and capital deployment strategies. These helped drive significant book value per share growth of 15 percent from last year.

Our balance sheet remains strong – giving us a solid foundation to grow at all points in the cycle. Our internal capital generation combined with a strong Common Equity Tier 1 (CET1) ratio of 13.2 percent enabled us to deploy capital in a balanced manner – allocated relatively equally between $20 billion of client-driven risk-weighted asset (RWA) growth[1], $1.7 billion of dividends and nearly $2 billion of share repurchases. And this morning, we announced an 8 cent or 7 percent increase in our quarterly dividend. We also expect to take advantage of changing market conditions to complete our accretive normal course issuer bid in the second half of the year. With our strong foundation, we are well-positioned to continue executing on our key strategic priorities, including working to close the acquisition of Brewin Dolphin, which its shareholders approved earlier this week. This proposed transaction meets our criteria of acquiring high quality franchises which provide value-added, complex advice to a growing client base, in a structurally attractive market. We look forward to combining our complementary businesses and offering a breadth of wealth and banking products, advice and services to clients, while adding yet another sustainable growth vector to both our Wealth Management and UK franchises. We also deployed our capital to drive balanced growth in our diversified loan portfolio, where year-over-year growth was split equally between the Retail and Wholesale sectors. Our Commercial Real Estate portfolio is a good example of how we drive balanced growth. The $12 billion year-over-year growth in this portfolio was not limited to Canadian Banking, but well-diversified across geographies and segments, including Capital Markets and City National.

We expect our CET1 ratio will remain strong, even after accounting for continued share buybacks and the proposed acquisition of Brewin Dolphin. Our capital strength continues to provide us the flexibility to deploy our capital in a balanced manner. While we did release a sizable portion of our COVID-related reserve build, Graeme will speak to the prudent increase in our reserves related to the increasingly challenging macroeconomic environment, even as we operate with low unemployment and client liquidity at elevated levels, with delinquencies and PCL on impaired loans at low levels.

[1] Organic growth reflects growth in RWA excluding impacts of models & methodology updates, asset quality, acquisitions & disposals and FX.

Our results illustrate the importance of having diversified revenue streams. We expect the benefit of higher interest rates will more than offset some of the near-term headwinds in our market sensitive businesses. The roughly $75 million benefit to Canadian Banking from the recent Bank of Canada rate hikes is reflective of the strategic investments we have made in our core deposit franchise over many years, including last year's launch of *RBC Vantage*. In the last two years alone, we have gained over 70 basis points of market share in core chequing deposits.

And as Nadine will speak to shortly, rising short-term rates should provide a significant revenue lift across our businesses, benefiting from both increasing deposit margins in Canadian Banking and our Wealth Management and custody franchises, as well as higher asset yields at City National and our wholesale businesses. Our results this quarter also highlighted the balance within our various market sensitive businesses. The strength of our investment management, mutual fund and corporate lending platforms partly offset pressures in origination activities and trading revenues. Expense growth was well contained at 1 percent year-over-year, in part due to a natural, built-in hedge of variable compensation. As market sensitive revenues decrease, so does this large part of our cost base.

I'll now expand on trends we are seeing across our core businesses.

In Canadian Banking, residential mortgage growth remained strong, up 11 percent year-over-year for the second straight quarter. And we continue to invest in further improving the home buying experience for our clients. With housing activity slowing as interest rates rise, we expect mortgage growth to slow in the second half of the year, and come in at the high single-digit range for the year. We anticipate the slowdown in mortgage growth to be offset by higher growth in commercial lending and credit cards, especially as utilization and revolve rates continue to increase off their recent lows. Credit and debit card transactions were 30 percent above pre-COVID levels in April, with strong momentum carrying into May. Global airlines and credit card networks are noting higher travel bookings, and we are seeing increasing visits to restaurants and hotels.

In our market-leading business banking franchise, loan growth was up 10 percent from last year as we saw increased confidence from business leaders. We also saw the benefit of our past investments in our business, including adding bankers and growing our RBCx platform. A recovery to pre-pandemic commercial utilization and card payment rates from current levels will not only add to Canadian Banking loan balances, but also drive further margin expansion, potentially adding nearly $200 million of additional revenue over time. However, the best way to drive growth is to continue growing our 14 million client base, as we have been doing through our differentiated products and services, including going beyond banking through innovative solutions, including RBC Ventures and our strategic partnerships with West Jet, Petro-Canada and Rexall.

Turning to Wealth Management. We believe the diversity of our portfolio, and the quality of our advice are strengths in these volatile markets. In Canada, RBC Dominion Securities has the #1 market share for high and ultra-high net worth clients. Canadian Wealth Management AUA was up nearly $35 billion or 7 percent year-over-year. And despite the volatile environment, we continued to attract experienced investment advisors, while also seeing very limited attrition rates. RBC Global Asset Management includes the largest retail mutual fund company in Canada. Despite volatile market movements in both equity and bond markets, long-term net sales were $9 billion this quarter. In the U.S., we have multi-pronged growth vectors, including the 6th largest U.S. wealth advisory firm ranked by AUA, where we continue to add to our advisor base, who are attracted to our technology and brand. At City National, wholesale loan growth was flat relative to last year, or up 14 percent excluding triple-P loans, benefiting from our growing teams and the build-out of our mid-market lending platform. Retail loans were up 25 percent year-over-year, largely due to strong growth in our jumbo mortgage strategy. And as I noted earlier, the proposed acquisition of Brewin Dolphin will further diversify our revenue stream by expanding our footprint in the UK.

Although Capital Markets revenue is lower than in recent quarters, pre-provision, pre-tax earnings of $1 billion highlights the resilience of our diversified businesses in light of a challenging market environment. Our lending business had a second consecutive record quarter underpinned by increased demand, including acquisition financing mandates, as well as more favorable yields. And we gained market share in global investment banking year-to-date, reflecting our continued investment in this business. As I have noted recently, we are strengthening our talent in key verticals having hired approximately 20 managing directors year-to-date, and will look to continue to hire throughout the rest of the year. This is in addition to the 25 MD's hired last year. It's also important to highlight our balance between growth and prudent risk management. Despite volatile market conditions, we have had zero days of trading losses over the last 2 years. While market conditions are proving to be a cyclical headwind, we still expect Capital Markets to continue to grow earnings in 2023 as markets stabilize.

In conclusion, our continued investments in our people, technology, products and services are creating more value for our clients and driving strong volume growth and client activity across our businesses. We remain well-positioned to perform through the cycle given our strong balance sheet, diversified business model, and balanced capital deployment strategy, including returning capital to our shareholders.

Nadine, over to you.

NADINE AHN, CHIEF FINANCIAL OFFICER

Thanks Dave, and good morning everyone.

I will start on slide 9. As Dave noted earlier, we reported earnings per share of $2.96 this quarter, up 7 percent from last year. Revenues were down 3 percent year-over-year as strong volume growth, and higher investment management and mutual fund revenue were more than offset by an expected slowdown from very strong Capital Markets results last year. Expenses were up 1 percent from last year with pre-provision, pre-tax earnings down 2 percent. Our results benefited from a net release in provision for credit losses, which Graeme will speak to shortly. Our effective tax rate was down 270 bps from last year, mainly due to the impact of net favourable tax adjustments. The legislation associated with the proposed Federal budget tax changes has yet to be drafted, and as such it is too early to comment on details associated with those changes, which we expect to increase our tax rate next fiscal year. Before moving to segment results, I will spend some time on three key topics – our balanced capital deployment strategy, our broad-based sensitivity to higher interest rates, and our focus on expenses.

Starting with capital on slide 10. Our CET1 ratio was a strong 13.2 percent, down 30 basis points from last quarter. Our earnings this quarter drove a premium ROE of 18 percent, generating 75 basis points of capital. We continue to maintain a balanced capital deployment strategy, allocating capital fairly evenly between growth, dividends and buybacks. Inclusive of both dividends and buybacks, our total payout ratio was over 80 percent this quarter. At the mid-year point, we have completed half of our previously announced normal course issuer bid, and have returned to our traditional policy of twice a-year dividend increases. Our organic business growth was largely driven by strong financing activity across Capital Markets, City National and Canadian Banking as we actively engaged with both new and existing clients. Looking ahead, we expect the benefit from the implementation of the Basel reforms in early-2023 to more than offset the approximate 40 basis point CET1 impact of the proposed acquisition of Brewin Dolphin, which is anticipated to close by the end of third calendar quarter this year.

Moving on to slide 11. Net interest income was up 9 percent year-over-year, or up 10 percent excluding the impact of trading results – the highest growth rate since Q3 / 2019. Strong client-driven volume growth in Canadian Banking and City National along with record lending revenue in Capital Markets more than offset the impact of lower spreads year-over-year. Canadian Banking NIM was up 4 basis points from last quarter, the highest such increase since Q2 / 2018, largely due to higher deposit margins on our leading, low-beta core chequing platform. This was partly offset by the impact of a continued decline in mortgage spreads. City National's NIM was up 14 basis points relative to last quarter. As expected, rising interest rates had a relatively higher impact on City National's asset sensitive balance sheet, with roughly half of its loans being floating rate commercial loans.

Now to slide 12. We remain well-positioned to benefit from higher rates. A 100 basis points parallel shift[2] is expected to provide a $1.1 billion benefit to net interest income in the first year, rising to approximately $1.8 billion in Year 2. To provide better visibility on our sensitivity to rising interest rates, we also highlight the expected benefit of a 25 basis point rate hike. Over the next 12 months, we estimate a flattening curve[2] scenario could result in an aggregate $200 million of additional revenue in our Canadian Banking and U.S. Wealth Management businesses. We could also see a $60 million benefit over 12 months from our deposit-rich Canadian Wealth Management and asset services businesses. We anticipate an increase in client demand for repos should we see a normalization of surplus liquidity in wholesale markets. This, coupled with rising rates, should serve as a catalyst for a recovery in repo spreads. And a recovery in commercial utilization and credit card revolve rates would not only be positive for growth, but to margins as well. We expect these benefits to revenue to more than offset the impact of competitive pricing pressures and rising funding costs.

Turning to expenses on slide 13. Non-interest expenses were up 1 percent year-over-year. Our more controllable costs, or expenses excluding variable and share-based compensation, were up 7 percent. Salaries were up 7 percent year-over-year, representing nearly 40 percent of the increase in our more controllable costs. As Dave noted, we continued to invest in sales capacity to meet the needs of our clients and drive growth. Part of the increase was also driven by higher salaries offered to our employees at the end of last year. Higher professional fees and tech-adjacent costs represented nearly 30 percent of the increase in controllable costs as we continued to invest for the future while improving our operational and regulatory infrastructure. The normalization in marketing and travel costs compared to low levels last year drove another 20 percent of the increase as we continue to meet the needs of our clients as economies opened up.

Going forward, we are aware of the evolving operating environment, including inflationary risks and the need to strategically invest to ensure we remain well-positioned to provide even more value to our clients. Nonetheless, we remain committed to prudently managing our cost structure. We continue to expect annual controllable expenses, excluding variable and share-based compensation, to grow at the higher end of the low-single digit range for the full 2022 fiscal year. We expect the year-over-year growth in all-bank controllable costs to moderate in the second half of the year even with rising salaries, and higher discretionary costs off of COVID-lows. Offsetting this would be our continued focus on productivity. Also, recall, we have made significant investments across the bank for a number of years, and going forward we expect growth in amortization costs related to the capitalization of this historic tech spend to begin to slow. And, we expect our full year Canadian Banking efficiency ratio to fall under 40 percent in 2023 as we look to generate full-year segment operating leverage above the higher end of our historical 1 to 2 percent guidance.

Moving to our business segment performance beginning on slide 14. Personal & Commercial Banking reported earnings of $2.2 billion this quarter. Canadian Banking pre-provision, pre-tax earnings were up 4 percent year-over-year, in line with revenue growth. Canadian Banking net interest income was up 5 percent year-over-year driven by strong volume growth. Non-interest income was up 3 percent from last year. Higher mutual fund distribution fees were offset by lower securities brokerage commissions from a normalization in Direct Investing client activity. Increased client activity drove higher revenue from service charges. Higher consumer spending drove higher credit card balances, as well as higher credit card purchase volumes and foreign exchange revenue, as travel bookings increased. Partially offsetting this were higher rewards costs commensurate with an increase in travel redemptions. Operating leverage was negative this quarter with expense growth up 6 percent on higher technology and staff-related costs, and higher marketing costs. Year-to-date operating leverage was 1 percent, and we expect it to improve in the second half of the year.

Turning to slide 15. Wealth Management reported earnings of $750 million. Pre-provision, pre-tax earnings were up 8 percent from last year. Revenues were up 11 percent year-over-year, including $84 million in pre-

[2] Represents the 12-month revenue exposure (before-tax) to an immediate and sustained shift in interest rates.

tax gains from the sale of certain non-core affiliates at City National. Canadian Wealth Management, RBC Global Asset Management and U.S. Wealth Management all reported higher fee-based client assets, primarily reflecting net sales. This was partially offset by lower transactional revenue, mainly driven by reduced client activity as investor sentiment turned cautious. RBC GAM generated long-term net sales of $9 billion this quarter, especially in Balanced and Equity mandates. Outflows were largely driven by clients rethinking their fixed income strategies. Net interest income at City National was up a strong 10 percent year-over-year in U.S. dollars driven by double-digit volume growth.

Turning to Insurance on slide 16. Net income of $206 million increased 10 percent from a year ago, primarily due to higher favourable investment-related experience. Canadian Insurance reported higher group annuity sales and business growth across most products, and International Insurance recognized business growth in longevity reinsurance.

Turning to I&TS on slide 17. Net income of $121 million remained relatively flat year-over-year as higher client deposit revenue from higher interest rates was offset by higher technology-related costs, a favourable sales tax adjustment in the prior year and higher legal costs.

Turning to slide 18. Capital Markets reported earnings of nearly $800 million. Pre-provision, pre-tax earnings of $1 billion were down 20 percent from last year's strong results. Corporate & Investment Banking revenue declined 6 percent from last year due to weaker origination activity as elevated volatility and macro uncertainty kept issuers on the sidelines. This more than offset higher fees from M&A advisory and loan syndication, as well as record lending revenue, as we continued to deepen engagement with clients. Global Markets revenue was down 14 percent year-over-year, with lower results in both FICC and Equities trading. In FICC, widening credit spreads negatively impacted our larger Credit trading business, which more than offset strong trading performance in Commodities and FX due to volatility-driven client activity. Equities revenues were solid, although down from record results last year, which was characterized by robust primary activity and flow in derivatives.

To conclude, our diversified businesses are well-positioned to grow their franchise, while building on the benefits from higher interest. And we remain disciplined in balancing our investments and capital deployment to continue delivering value for our shareholders and clients.

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

GRAEME HEPWORTH, CHIEF RISK OFFICER

Thank you Nadine and good morning everyone.

Starting on slide 20, our Gross Impaired Loans of $2.1 billion were stable this quarter and are at their lowest level in 7 years. New formations of $398 million increased 51 percent quarter-over-quarter, as they normalized from the 10-year lows experienced last quarter, yet remained below pre-pandemic levels. The increase was mainly in Capital Markets, where we had a new impaired loan in each of our Other Services and Consumer Staples sectors.

Turning to PCL on impaired loans on slide 21. During the quarter, we saw pandemic containment measures continue to ease, fueling an economic recovery that has resulted in better-than-expected unemployment rates and GDP growth. These factors drove very strong credit outcomes in Q2, with PCL on impaired loans of $174 million, or 9 bps, which was stable compared to last quarter, and remained well below pre-pandemic levels and our historic norms. In the Canadian Banking portfolio, PCL on impaired loans was down $40 million from last quarter, primarily driven by our commercial portfolio. Even though the benefits associated with government support programs for commercial clients have largely concluded, performance has remained strong. Provisions on impaired loans for this portfolio came in at just $1 million this quarter with mid-stage delinquencies also declining from last quarter. This strong performance was also observed more broadly with delinquency rates being lower across all of our Canadian Banking portfolios, as clients continue to benefit from a combination of elevated savings, strong labour markets and the overall economic recovery.

In Capital Markets, after four consecutive quarters with net PCL reversals, we have seen recoveries normalize as expected, given the low level of impaired balances remaining. PCL on impaired loans was $27 million in the quarter, due primarily to provisions on a newly impaired loan in the Consumer Staples sector. Finally, in Wealth Management, PCL on impaired loans was less than $1 million this quarter, with relatively small provisions on loans in the Consumer Discretionary sector, which were offset by reversals of provisions taken last quarter in the same sector.

Moving to slide 22, I will provide some context on our allowances. As noted earlier, uncertainty associated with the end of government support has materially subsided and the impact of Omicron has proven to be limited. This has resulted in the release of the majority of our remaining COVID-related reserves on performing loans. However, new headwinds and concerns are emerging. The exceptionally strong economic recovery has created inflationary pressures that are proving to be greater and more sustained than previously anticipated. These pressures have been exacerbated by continued COVID-19 containment measures in China, as well as by the Russian invasion of Ukraine, which is having a substantive impact on commodity and energy prices. To curb the pace of inflation, central banks have increased interest rates and we expect more increases are on the horizon.

To account for a deteriorating macroeconomic outlook, we have prudently adjusted our provisions on performing loans. While our base case still calls for positive economic growth, we have increased both the severity and likelihood of our downside scenarios, which has partially offset the COVID-19-related reserve release. The net result was a $504 million release of provisions on performing loans this quarter, which drove a $502 million reduction in our allowance for credit losses on loans, from $4.4 billion to $3.9 billion. Our ACL ratio of 49 bps reflects our reserve releases over the last 6 quarters, as well as a shift in portfolio mix driven by growth in our residential mortgage portfolio through the pandemic. Going forward, we will continue to monitor the evolving macroeconomic environment and ensure we are adequately provisioned.

Let me now comment on the Canadian housing market and our residential mortgage portfolio. Following two years of exceptionally strong housing markets, we started to see markets cool and prices stabilize during the quarter on the heels of interest rate increases by the Bank of Canada. Aligned with the rapid house price appreciation, we have also seen the income underpinning our mortgage originations grow at an accelerated rate, and the proportion of our mortgage originations with clients in the top quintile income bracket grow from about a third to just under half. This highlights the relative quality of our mortgage client base, and the strong and consistent underwriting standards we employ, but also highlights the ongoing housing affordability challenge we have in Canada. There have also been some notable origination trends in the market in relation to investor and variable rate mortgages so we have provided some more colour on these segments on slide 23. Investor mortgages account for 13 percent of our Canadian Banking residential mortgage portfolio and for this client segment we apply more stringent underwriting standards. As such, the book has outperformed our broader mortgage portfolio, with a significantly lower impaired rate and higher proportion of borrowers with a FICO score greater than 800. Variable rate mortgages account for 29 percent of our Canadian Banking residential mortgage portfolio.

For these mortgages, a client's monthly payment remains unchanged as interest rates increase until the mortgage matures, providing the borrower greater time and flexibility before their payment increases. A majority of these mortgages were originated or renewed in the past year and are of high credit quality with an average FICO of 793 and an average current LTV of 52 percent. Finally, in addition to the stress testing built into our origination process, we continuously review the resilience of our mortgage portfolio to higher interest rates. This provides us confidence that the large majority of our clients have the capacity to absorb the impact of further interest rate increases.

To conclude, we continue to be pleased with the ongoing performance of our portfolios. Employment rates, housing prices, oil prices, and other macroeconomic variables have come in stronger than projected this quarter, and as I noted earlier, the impacts of COVID-19 on our portfolios have largely subsided. These factors contributed to lower-than-expected PCL on impaired loans this quarter, and we believe the return to more normal levels of PCL on impaired loans has likely been delayed to later in 2023. However, during the quarter, we continued to see heightened market volatility, driven by the increasing macroeconomic risks noted earlier. We are actively managing this increasing economic uncertainty. Our exposure to Russia is nearly non-existent, consistent with our strategy and risk appetite. We continue to maintain a defensive position in our trading business and did not experience any days with trading losses during the quarter.

We continue to stress test our portfolio for inflation and interest rate risks, and we believe we are prudently provisioned and capitalized to withstand plausible, yet more severe macroeconomic outcomes.

We expect that any elevated credit costs associated with these emerging macroeconomic headwinds are not likely to materialize until 2024. As always, we believe the quality of our client base and our prudent risk management approach position us well to manage through this increasingly complex backdrop, and we remain steadfast in our commitment to supporting our clients and delivering advice, products, and insights to help them navigate the evolving macroeconomic and operating environment.

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

Note to users:

We measure and evaluate the performance of our consolidated operations and each business segment using a number of financial metrics, such as net income, ROE and non-GAAP measures, including pre-provision, pre-tax earnings. Certain financial metrics, including ROE and pre-provision, pre-tax earnings do not have any standardized meanings under GAAP and may not be comparable to similar measures disclosed by other financial institutions. We believe that certain non-GAAP measures are more reflective of our ongoing operating results and provide readers with a better understanding of management's perspective on our performance.

Additional information about our ROE and non-GAAP measures can be found under the "Key performance and non-GAAP measures" sections of our Q2 2022 Report to Shareholders and 2021 Annual Report.

Definitions can be found under the "Glossary" sections in our Q2/2022 Supplementary Financial Information and our 2021 Annual Report.