ROYAL BANK OF CANADA SECOND QUARTER RESULTS CONFERENCE CALL THURSDAY, MAY 25, 2023

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compliance (which could lead to us being subject to various legal and regulatory proceedings, the potential outcome of which could include regulatory restrictions, penalties and fines), strategic, reputation, competitive, model, legal and regulatory environment, systemic risks, and other risks discussed in the risk sections of our annual report for the fiscal year ended October 31, 2022 (the 2022 Annual Report) and the Risk management section of our Q2 2023 Report to Shareholders; including business and economic conditions in the geographic regions in which we operate, Canadian housing and household indebtedness, information technology and cyber risks, geopolitical uncertainty, environmental and social risk (including climate change), digital disruption and innovation, privacy, data and third party related risks, regulatory changes, culture and conduct risks, the effects of changes in government fiscal, monetary and other policies, tax risk and transparency, 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, financial market conditions and our business operations, and financial results, condition and objectives. Additional factors that could cause actual results to differ materially from the expectations in such forward-looking statements can be found in the risk section of our 2022 Annual Report and the Risk management section of our Q2 2023 Report to Shareholders.

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 this presentation are set out in the Economic, market and regulatory review and outlook section and for each business segment under the Strategic priorities and Outlook sections in our 2022 Annual Report, as updated by the Economic, market and regulatory review and outlook section of our Q2 2023 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 2022 Annual Report and the Risk management section of our Q2 2023 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 and Insurance 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 second quarter earnings of $3.6 billion, or adjusted earnings of $3.8 billion. Pre-provision, pre-tax earnings of $5 billion were up 1 percent from last year. We also announced a 3 cent or 2 percent increase in our quarterly dividend as part of our cadence of twice-a-year increases and commitment to returning capital to our shareholders. Net interest income was up 16 percent from last year, benefiting from solid client-driven growth in Canadian Banking and Wealth Management, as well as higher interest rates. Capital Markets had yet another strong quarter, reporting over $1.1 billion in pre-provision, pre-tax earnings despite a challenging environment for global investment banking fee pools. The revenue contribution was equally split between Global Markets and Corporate & Investment Banking, reflecting the segment's well-diversified business model. Our all-bank performance this quarter reflected the strength and diversity of our leading client franchises and strong balance sheet. However, shifting client deposit preferences, expenses, and provisions for credit losses point to an increased cost of doing business.

Before I provide context on our key growth strategies and the expense trajectory, I will speak to what remains a complex environment. Markets are facing structurally different circumstances following the end of an era of low inflation, low interest rates, and increased globalization. This is in addition to absorbing game-changing challenges from technology and de-carbonization, as well as more near-term risks, including implications from U.S. debt-ceiling negotiations. While recent stresses in the U.S. regional banking sector appear to have eased, the fall out will likely include more liquidity and capital regulations and a subsequent tightening of lending capacity. The Canadian financial system is already subject to many of these liquidity and capital requirements and performed exceptionally well through the recent U.S. regional banking liquidity crisis. It appears that the magnitude and steepness of central bank rate hikes has started to rein in headline inflation. Given signs of softening consumer demand for discretionary goods and rising debt service costs, we continue to forecast a mild recession, partly due to the lagging impact of higher interest rates on economic activity. However, with labour markets remaining firm despite declining levels of attrition and job postings combined with higher jobless claims, we do not expect central banks to cut interest rates through 2023. It is important that inflation doesn't become anchored into the psyche of the economy.

The importance of balance sheet strength comes to light in these challenging moments. And it is in this environment that we strengthened key ratios, including ending the quarter with a CET 1 ratio of 13.7 percent. Looking ahead, we continue to expect that our CET1 ratio will remain above 12 percent following the close of the planned HSBC Canada transaction, pending regulatory approvals. We expect the transaction to close in the first calendar quarter of 2024. This mutually agreed upon timeframe will help us ensure a smooth transition for clients. In addition, the purchase price is structured using a locked-box mechanism. Accordingly, all of HSBC Canada's earnings from June 30th, 2022 to close will accrue to RBC. We remain comfortable with the synergy and accretion assumptions we made at the time of the acquisition. Another important pillar of RBC's balance sheet strength is the addition of a further $173 million of PCL on Performing Loans this quarter, and we have now increased our ACL on Performing loans by over 20 percent since last year. We also have a diversified funding and liquidity profile, which includes our leading Canadian deposit franchise built on deep client relationships. Canadians appreciate the client value proposition that we offer, including RBC Vantage, our partnerships and leading digital banking capabilities. *NOMI Forecast* was recently recognized for *Best Use of AI for Customer Experience* at the *2023 The Digital Banker Awards*.

Furthermore, we entered into a strategic partnership with *Conquest Planning* to leverage its artificial intelligence platform to identify financial strategies for clients. Our clients also value our continuum of alternative offerings. In the current environment of higher interest rates and increased uncertainty, our clients are looking for both safety and yield. We continue to see a shift in personal deposit mix towards term GIC products. In the quarter, personal term deposits saw $10 billion of inflows, of which a third was from external sources. GICs have seen nearly $50 billion of deposit flow over the last 12 months alone. We are also seeing a shift in mix for Business deposits at the same time as we are seeing continued competition for assets. While there has been a significant trade-off to near-term margins, we have gained new clients and provided valuable advice to deepen relationships, which will become increasingly profitable over time. Furthermore, we expect to retain most of these balances, and look to support our clients in reallocating their assets into our leading investment franchises at the right moment. These deposits are also an added source of lower-cost retail term funding as we continue to support our clients' financing needs. Our Canadian Banking loan-to-deposit ratio has remained relatively flat at near 100 percent over the last year.

While Nadine will get into the details, I want to provide my thoughts on the expense trajectory. Reported expense growth was 16 percent year-over-year. However, after excluding for acquisition and macro-related factors, expenses were up 8 percent from last year. The largest driver of expense growth this year has been higher headcount to support client needs as well as base salary increases. We are committed to actively reducing expenses, and are using a number of different levers to do so. This includes deliberate actions that we have already initiated, such as managing headcount growth through attrition and slowing hiring, while also preparing for a complex transition with respect to the planned acquisition of HSBC Canada. The remainder of the core drivers of expense growth reflects inflationary pressures, and importantly, strategic investments to enhance our value proposition and infrastructure to drive future operating leverage and client-driven growth, which I will speak to shortly. In addition to driving strategic growth and accretive capital allocation, one of my top priorities is an increased discipline

around costs. The entire leadership team is committed to actively executing on our efficiency playbook, and we are focused on curtailing expense growth and prioritizing investments without impacting our ability to serve our clients, or opportunities to attract new clients.

I will now speak to key growth drivers across our largest segments. Starting with Canadian Banking. Mortgages grew 7 percent from last year, down from 8 percent growth year over year last quarter. Origination activity is expected to continue moderating towards 2019 levels as limited supply and increased demand from immigration is muted by concerns around affordability. We expect annual mortgage growth to slow to the mid-single digits. Earlier this quarter, we announced the acquisition of *OJO Canada*, a FinTech that supports Canadians at every stage in their home buying journey, including providing connections to real estate agents. We are also investing to enhance the efficiency of our mortgage lending platform. While Credit card balances reached a record high of $20 billion with record new card openings, revolver levels remained below pre-pandemic levels. We expect revolver balance levels to surpass pre-pandemic levels by early-2024, which would have positive implications for net interest margins. Business loans were up over 15 percent from last year as we continue to see improving utilization levels in operating facilities and CapEx investments. The growth was balanced, with the majority non-CRE related. We expect business lending growth will continue over the next few quarters.

Moving to Canadian Wealth Management. Assets Under Administration were up 4 percent from last year, hitting a record level of $540 billion. We also recently announced we will bring over all advisor teams from *Gluskin Sheff*. Part of the agreement also includes a distribution of *ONEX* alternative investment strategies and funds. Going forward, we will look to continue expanding our set of Alternative asset strategies, which currently includes a partnership with QuadReal and our BlueBay family of funds. Despite challenging market conditions, RBC Global Asset Management AUM increased from last quarter and last year while also generating positive net flows in the quarter. U.S. Wealth Management AUA were also up from comparative periods. Advisor recruiting will remain a key source of growth for Wealth Management USA, and we added over 20 new advisors this quarter. Since the beginning of fiscal 2022, we have recruited 135 advisors who are expected to drive over $20 billion of AUA. We also look forward to future contributions from RBC Brewin Dolphin. Amidst the volatile backdrop in U.S. regional banking, City National deposits were down from last year as clients put their money to work. Most importantly, deposits remained stable sequentially, evidence of new client relationships and the strength of RBC's balance sheet. City National loan growth was up 14 percent year-over-year with our mid-market strategy based on a diverse foundation of over 200 relationships. Going forward, we expect loan growth to slow as the focus increasingly shifts to improving business profitability while we continue to invest in enhancing City National's technology and governance infrastructure.

Capital Markets generated $1.1 billion of pre-provision, pre-tax earnings despite declining global fee pools, which are down over 40 percent from last year due to the challenging economic environment. In Investment Banking, we continued to invest in talent in key verticals, such as technology and healthcare, as well as across important coverage areas, including M&A and ECM. These investments are increasingly reflected in new mandates as well as in our market share, which has improved to 7th place so far in 2023, up from 10th through 2022. We are looking to strategically add further hires in key positions. We are also building out our U.S. Cash Management business, which we expect to provide a source of steady revenue and additional deposit funding capacity over time. We are excited about this opportunity and look forward to sharing more over the coming quarters as we look to launch it to market. We believe we can meaningfully compete in this space given our existing corporate banking client relationships and leading credit ratings. In Global Markets, we aspire to continue gaining market share over time. We are currently investing in technology to further modernize our client tools and infrastructure to drive scalable growth in the future.

In closing, while we continue to operate in a challenging macro and operating environment, we have momentum and are seeing meaningful gains across our core client franchises. We are focused on enabling future growth, including through our intended acquisition of HSBC Canada, and to moderating our expense growth to sustain our premium valuation.

Before I turn the call to Nadine, I want to express our support for Western Canada in light of the ongoing wildfires across the region. We have contributed to the Canadian Red Cross relief efforts, and are supporting our communities, clients, and employees in the impacted areas.

Nadine, over to you.

NADINE AHN, CHIEF FINANCIAL OFFICER

Thanks Dave, and good morning everyone.

Starting on slide 8. We reported Earnings Per Share of $2.58 this quarter. Adjusted diluted EPS of $2.65 was down 11 percent from last year, largely driven by the impact of prior year releases of PCL on performing loans. Strong client-driven revenue growth of 20 percent year-over-year, or up 10 percent net of PBCAE, was largely offset by higher expenses resulting in pre-provision, pre-tax earnings growth of 1 percent. Before focusing on more detailed drivers of our earnings, I will highlight the strength of our balance sheet. Starting with our strong capital ratios on slide 9. Our CET1 ratio improved to 13.7 percent, up 100 basis points from last quarter. Consistent with the guidance we provided in Q1, this quarter's increase reflected a 79 basis points benefit from Basel III regulatory reforms.

Next turning to slide 10. It is important to emphasize the diversity, strength and stability of our funding and liquidity profile. This quarter, we prudently managed to a higher LCR of 135 percent, up 5 points from last quarter, which translates into a surplus of $102 billion. Our liquidity levels remain robust and provide us with flexibility to execute our strategy. Turning to our $900 billion client deposit franchise. Canadian Banking accounts for approximately 70 percent of total client deposits. Our Canadian retail banking franchise is well diversified, serving approximately 13 million personal banking clients with a median chequing account balance of $2 thousand. Furthermore, over 85 percent of our mortgage clients have a personal banking account, increasing the depth of the relationship. In the U.S., as Dave noted, City National deposits remained stable quarter-over-quarter, and our U.S. Wealth Management franchise has over $30 billion of sweep deposits. Across our North American corporate and commercial deposit franchises, we have long-tenured, relationship-based clients that we support with strong advice and a deep shelf of products and solutions. The combination of our strong deposit base and robust capital positions us well to continue funding future loan growth and meeting the needs of clients.

Moving to slide 11. All-bank net interest income was up 16 percent year-over-year, or up 19 percent excluding trading revenue. These results reflect our earnings sensitivity to higher interest rates as well as the benefit from higher volumes across many of our Canadian Banking and Wealth Management businesses. All-bank net interest margin, excluding trading net interest income and assets, was down 7 basis point from last quarter, largely reflecting deposit trends in our North American personal and commercial banking franchises, as well as higher enterprise liquidity levels.

On to slide 12, we walk through this quarter's key drivers of Canadian Banking NIM, which was down 8 basis points from last quarter. The embedded advantages of our structural, low beta core deposit franchise continued to come through this quarter, reflecting the latent benefit of recent interest rate hikes. NIM also benefited from changes in asset mix, including higher credit card revolving balances and strong commercial growth. While we have seen a slight widening of mortgage spreads from historically low levels, mortgage lending remains highly competitive. However, these benefits were more than offset by both the continued shift in deposit mix into term products, along with lower GIC spreads, reflecting increased competition for non-wholesale term funding. Going forward, we now expect low double-digit net interest income growth for 2023. However, there are a number of variables that drive this outlook. Embedded in our guidance are modeled expectations for client behavior, including solid volume growth, a slowing in the continued deposit mix shift towards GICs, and a favourable asset mix shift towards higher spread commercial and credit card loans. With respect to spreads, we assume continued intense competition for deposits and mortgages, and flat interest rates. Any changes in the timing and extent of these spread and volume assumptions could have an impact on the trajectory of net interest income.

Turning to City National, NIM was down 22 basis points from last quarter, mainly reflecting an adverse funding mix shift into interest bearing deposits, as well as a full quarter's impact of last quarter's higher FHLB borrowings. This more than offset the significant benefit of Fed rate hikes on City National's asset sensitive balance sheet.

Moving to slide 13. Non-interest expenses were up 16 percent from last year. Approximately half of this growth was driven by acquisition-related costs, as well as by macro-driven factors such as FX and share-based compensation. Beyond these factors, the core drivers of organic expense growth were

investments in people and technology. Salaries were up 20 percent from last year as investments in our people reflected FTE growth of 10 percent year-over-year, as well as inflationary impacts of the higher base salaries announced last year. This trend was most evident in Canadian Banking as elevated hiring to service increased client needs and to offset higher than average employee attrition rates has led to FTE being 2,600 higher than last year. In Capital Markets, expense growth was underpinned by investments in upgrading our technology and building out product capabilities that Dave highlighted earlier, as well as higher costs in support of increased activity, including trade execution. At City National, we continue to make investments in people, processes and technology to enhance the operational infrastructure in support of the bank's next leg of growth. More broadly, business development costs such as Marketing and Travel expenses continued to grow off of COVID-related troughs. We are increasingly focused on controlling expenses through various levers, including actions to manage headcount, while also curtailing discretionary spend. We are also taking action to centralize certain operations, rationalize vendor relationships, and prioritize certain Application Development spend. Looking ahead to the 2nd half of the year, we expect adjusted all-bank expense growth, excluding acquisition-related costs and share-based compensation, to decelerate to the mid-single digits. In Canadian Banking, we remain committed to leveraging our scale in achieving a sub-40% efficiency ratio.

Moving to our segment performance beginning on slide 14. Personal & Commercial Banking reported earnings of $1.9 billion this quarter with Canadian Banking pre-provision, pre-tax earnings up 11 percent year-over-year. Canadian Banking net interest income was up 16 percent from last year due to higher spreads and solid average volume growth of 8 percent reflecting balanced growth in loans and deposits. Non-interest income was flat year-over-year as higher Service Charges and Foreign Exchange revenue driven by higher client activity, was offset by lower mutual fund distribution fees reflecting the challenging market conditions, which weighed on average mutual fund balances.

Turning to slide 15. Wealth Management earnings were down 8 percent from last year due to higher PCL on performing loans and elevated expense growth in U.S. Wealth Management. In contrast, non-U.S. Wealth Management expenses were largely flat year-over-year, excluding the impact of RBC Brewin Dolphin. Revenues were up 11 percent year-over-year, aided by robust net interest income growth of 25 percent, reflecting the benefit of higher rates in both Canadian Wealth Management and U.S. Wealth Management. Global Asset Management revenue decreased, primarily due to lower average fee-based client assets on the back of softness in global markets. Despite challenging market conditions, net sales encouragingly turned positive driven by flows into institutional long-term and money market funds.

Turning to slide 16. Capital Markets earnings were up 10 percent year-over-year, reflecting strong performance amidst volatile markets and the benefits of a lower tax rate. Investment Banking revenue was up 4 percent from last year as the reversal of underwriting marks and increased client activities in Municipal Banking were partly offset by industry-wide declines in global fee pools amidst macro uncertainty. Global Markets revenue was down 3 percent from last year as lower equity trading revenues across regions was largely offset by broad-based strength in fixed income trading. Lending and other revenue_was up 17 percent from last year, reflecting strong results in Transaction Banking underpinned by margin expansion and higher lending revenue driven by mid-teen loan growth.

Turning to Insurance on slide 17. Net income decreased $67 million or 33 percent from a year ago, primarily due to higher capital funding costs.

To conclude, we are confident that the strength of our capital, credit and funding profile, combined with the strategic investments being made today will create long term value for shareholders. And we are committed to driving towards our objective of positive operating leverage. Our full management team is focused on expense optimization and moderating our expense growth in light of the rapidly changing macro environment.

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

GRAEME HEPWORTH, CHIEF RISK OFFICER

Thank you, Nadine, and good morning, everyone.

Starting on slide 19, I will discuss our allowances in the context of the macroeconomic environment.

During the quarter, we saw elevated volatility stemming from issues in the U.S. regional banking sector. However, the trajectory of the overall macroeconomic environment was consistent with our expectations. Inflation continues to moderate and central banks appear to be nearing the end of their rate hiking cycle. Relative to this time last year, the probability of more severe inflation and interest rate outcomes has reduced. That said, borrowers have been dealing with a higher rate environment for several months now, and we are seeing insolvencies, impairments and losses increasing toward longer-term averages.
The full impact of higher rates on the economy will take time to translate into credit losses, and we are still in the early stages of the credit cycle we've been expecting for some time. As a result, we built reserves on performing loans for the fourth consecutive quarter. This quarter's provisions reflect the impacts of: Increasing levels of delinquencies and credit downgrades; lower forecasted housing and commercial real estate prices; and portfolio growth. In the retail portfolio, most of this quarter's provisions on performing loans were taken on credit cards and unsecured revolving loans, where credit losses have been the fastest to normalize, consistent with a traditional credit cycle. In the wholesale portfolio, a majority of our provisions on performing loans were taken in Commercial Real Estate. As I discussed last quarter, risk in this sector continues to increase driven by higher interest rates, weakening macroeconomic factors and behavioural trends. Having said that, our commercial real estate portfolio is well diversified, and has been originated to sound underwriting standards in support of a strong client base. With the additional reserves added this quarter, our ACL on performing commercial real estate loans has increased 77% from a year ago. We remain sufficiently provisioned, noting our IFRS-9 downside scenarios reflect a decline in commercial property values ranging from 15 to 40%. In total, our allowance for credit losses on loans increased by $328 million this quarter, to $4.8 billion.

Moving to slide 20, provisions on impaired loans were up $84 million or 4 basis points relative to last quarter. I would note that our PCL ratio of 21 basis points remains below pre-pandemic and historical averages. In our wholesale portfolios, provisions were up $74 million compared to last quarter, with increases in Capital Markets and the Canadian Banking commercial portfolios. So far this year, a majority of our losses in the wholesale portfolios have been from clients that had issues prior to, or due to, the pandemic. Rate increases have subsequently acted as a catalyst for these borrowers to become impaired. As we move further into the credit cycle, we expect to see losses driven by more systemic factors arising from the anticipated economic slowdown. In our Canadian Banking retail portfolio, provisions increased by just $10 million quarter-over-quarter. This portfolio continues to benefit from persistently low unemployment rates, and elevated client deposits. Notably, provisions on impaired residential mortgages were lower this quarter, as the rate environment stabilized, and clients continue to prioritize payments on their mortgages. As expected, a large majority of the PCL on impaired loans was driven by credit cards and unsecured lines of credit, which as I noted earlier, is consistent with expectations from a traditional credit cycle.

Moving to slide 21, gross impaired loans were up $294 million or 3 basis points this quarter, with the increase primarily driven by Capital Markets and Canadian Banking. While this marks the third consecutive quarterly increase in gross impaired loans, our GIL ratio of 34 basis points remains below pre-pandemic levels. Additionally, new formations[1] decreased compared to last quarter across all our major lending businesses.

To conclude, we continue to be pleased with the ongoing performance of our portfolios. As expected, our PCL ratio on impaired loans continued to increase, but remains below pre-pandemic levels and historical averages. The impact of inflation and higher rates is expected to play out over a number of years, and we are still in the early stages of the current credit cycle. We expect PCL on impaired loans to continue to increase through the remainder of this year. Last fall, I guided toward a range of 20 to 25 basis points for PCL on impaired loans. We are expecting to come in at the higher end of that range for the year. Ultimately, the timing and magnitude of increased credit costs continues to depend on central banks' success in curbing inflation, while creating a soft-landing for the economy. We continue to proactively manage risk through the cycle, and we remain well capitalized to withstand plausible, yet more severe macroeconomic outcomes.

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

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[1] New formations for collectively assessed portfolios in Canadian Banking and Caribbean Banking are net of amounts returned to performing, repayments, sales, FX, and other movements, as amounts are not reasonably determinable.

Note to users:

We measure and evaluate the performance of our consolidated operations and each of our segments based on a variety of financial measures, such as net income and non-GAAP measures, including pre-provision, pre-tax earnings and adjusted basis measures. Certain financial metrics, including ROE and pre-provision, pre-tax earnings do not have a standardized meaning 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 key performance measures and non-GAAP measures can be found under the “Key performance and non-GAAP measures” section of our Q2 2023 Report to Shareholders and 2022 Annual Report.

Definitions can be found under the “Glossary” sections in our Q2/2023 Supplementary Financial Information and our 2022 Annual Report.