Royal Bank of Canada

2009 Annual Report

Vision	Values	Strategic goals
• Always earning the right to be our clients' first choice	• Excellent service to clients and each other • Working together to succeed • Personal responsibility for high performance • Diversity for growth and innovation • Trust through integrity in everything we do	• In **Canada**, our goal is to be the undisputed leader in financial services. • In the **U.S.**, our goal is to be a leading provider of capital markets, wealth management and banking services by building on and leveraging our considerable capabilities. • Outside **North America**, our goal is to be a premier provider of select capital markets, wealth management and banking services in markets of choice.

ROYAL BANK OF CANADA (RY on TSX and NYSE) and its subsidiaries operate under the master brand name RBC. We are Canada's largest bank as measured by assets and market capitalization, and among the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. We employ approximately 80,000 full- and part-time employees who serve more than 18 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 53 other countries. For more information, please visit rbc.com.

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See our Glossary for definitions of terms used throughout this document.

This annual report contains 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 applicable Canadian securities legislation. We caution readers not to place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. Additional information about our forward-looking statements and risk factors can be found under the Caution regarding forward-looking statements on page 5.

CHIEF EXECUTIVE OFFICER'S MESSAGE

At the end of a very challenging year, RBC stands apart as a globally significant, strong and stable financial institution. We had top quartile shareholder returns for one-, three-, five- and 10-year time horizons versus our North American peer group and today we are one of the largest banks in the world based on market capitalization. We are one of only a handful of banks globally with a Aaa-rating by Moody's Investors Service, and are among the most respected and well recognized banks for our corporate citizenship.

In fiscal 2009, we generated net income of $3.858 billion, which reflects a goodwill impairment charge of $1 billion on both a pre-tax and after-tax basis that did not affect our ongoing operations. Excluding the goodwill impairment charge, adjusted net income of $4.9 billion[1] was up 7 per cent from a year ago, reflecting strong performances in Canadian Banking, Capital Markets, Wealth Management, and Insurance.

Our consistently strong performance is due to our diversified business model, our strong balance sheet, a comprehensive approach to risk management, a clear long-term strategy and the efforts of employees who are proud to be part of RBC and committed to always putting our clients first.

The financial crisis and resulting economic downturn posed difficult conditions for our clients, but our people worked diligently to help them achieve better outcomes by extending credit and providing advice and service that leveraged our global capabilities, expertise as well as our competitive and financial strengths.

While the environment last year proved the strength of our business model, it also spurred all our businesses to find new ways to be more efficient and productive. In addition to a Tier 1 capital ratio of 13 per cent and low leverage relative to our global peers, our sharper focus on cost management will ensure that we are able to reinvest those savings in the solid growth opportunities provided by improving investor confidence, stronger credit and equity markets and recovering asset values.

We are a better company today than we were before the crisis began. We are armed with the wherewithal to invest and innovate so that we may further enhance our strengths and take the necessary steps to address our challenges. Our competitors are retreating from businesses in the face of capital constraints, government ownership, new regulatory hurdles or re-focused strategic priorities. In contrast, our strength, stability and diversified business model, combined with our risk management and financial performance have given us an unprecedented range of strategic opportunities. We are actively looking to invest in key business areas, as well as to explore potential acquisitions that meet our strict economic, strategic, and cultural criteria.

2009 Strategic goals

A large driver of our success has been our focus on our long-term strategy, which will continue to guide our business decisions. Specifically, our strategic goals are:

- In Canada, to be the undisputed leader in financial services.
- In the U.S., to be a leading provider of capital markets services, wealth management and banking by building on and leveraging our considerable capabilities.
- Outside North America, to be a premier provider of select capital markets, wealth management and banking services in markets of choice.

In Canada, RBC is an iconic brand and we are recognized as a clear Canadian business leader. While 2009 was a very difficult competitive environment, nearly all our businesses continued to build on their leadership position in each market and product category.

We continued to take steps to make it easier for clients of our retail bank to do business with us by expanding our branch and ATM networks, and by extending the hours of operation in more than half our branches. Over the past five years, we invested significantly in our business by adding client-facing employees and we redesigned processes to make it easier for our employees to serve our clients. We are beginning to see the results of these changes: more business from both new and existing clients, higher market shares in consumer lending, business loans and business deposits, and recognition by third-party organizations such as Synovate and Forrester Research Inc.

Our Canadian wealth management business is the largest in the country and includes the country's largest full service brokerage and largest mutual fund company. Despite the downturn, net sales of our mutual funds continued to increase, demonstrating the power of our distribution

(1) Adjusted net income is a non-GAAP measure. For more information, please see the Key performance and non-GAAP measures section of our Management's Discussion and Analysis.

network, rising financial markets, clients' increasing risk appetite and confidence in our fund management expertise. *Private Banker International* named RBC the "Outstanding Private Bank – North America" for 2009, recognizing our growth potential, strength, stability and leadership.

We are the largest bank-owned insurance company in Canada, and we are building our client base by providing more value to clients. We offer travel, life, and home and auto, and travel products and services through growing proprietary channels, including retail insurance branches, call centres, the Internet, a career sales force as well as through independent insurance advisors and travel agencies. Notably, we recently reorganized our business to be more responsive to client needs and expanded our Canadian retail insurance network to 49 branches in 2009, from 35 branches in 2008.

We continue to be Canada's leading global investment bank, and were again named Dealmaker of the Year in Canada (*Financial Post*), Best Investment Bank in Canada *(Euromoney)* and a leader in Canadian equity underwriting and corporate debt financing (*Bloomberg, Thomson Reuters*). We acted as global coordinator for the largest bought deal ever.

In the U.S., we are the sixth largest full-service retail brokerage firm with almost 2,300 financial consultants – up over 100 from last year following successful competitive recruitment. We successfully integrated our Ferris, Baker Watts Inc. and J.B. Hanauer & Co. acquisitions and announced an agreement to acquire J.P. Morgan's Third Party Registered Investment Advisory Servicing Business to expand the breadth and depth of our custody and clearing services. That acquisition is subject to regulatory approvals and other customary closing conditions and is expected to close in the second quarter of 2010.

For our capital markets business, our recent designation as a primary dealer in the U.S. by the Federal Reserve Bank of New York allows us to participate in all U.S. treasury auctions, giving us a broader product offering to better serve clients around the world and demonstrating the health and stability of our U.S. fixed income trading business.

The challenging economic conditions in the U.S. continue to affect our U.S. retail banking operations, which we are restructuring to improve client service and to achieve greater operational efficiency. We have over 430 branches in the southeastern U.S. serving retail, small business and commercial clients.

Outside North America, we are the only Canadian bank with a global wealth management capability, capitalizing on the sector's long-term growth around the world. The current market environment has presented significant growth opportunities for this business and we will continue to consider suitable acquisitions. In 2009, our U.K. wealth management operations completed the acquisition of Jersey-based Mourant Private Wealth, enhancing our ability to provide integrated private wealth management services to international clients.

Our global capital markets businesses also took advantage of the market dislocation by recruiting hundreds of talented professionals, acquiring new clients, and participating in larger transactions. Our fixed income and energy and mining businesses are now successful on a global basis.

In our Caribbean banking operation, we are integrating our RBTT acquisition with the goal of establishing a common operating platform to support our growth in the region. We established our Caribbean headquarters in Port of Spain, Trinidad and Tobago, to serve as the centre of our Caribbean banking network, which is currently the second largest in the English speaking Caribbean.

Our joint venture, RBC Dexia Investor Services, is a top 10 global custodian in terms of assets under administration, providing unique offshore and onshore solutions to institutions worldwide in 16 countries on four continents. It continues to pursue select client and market initiatives, such as the agreement to acquire the depositary bank business of Unione di Banche Italiane Scpa. The acquisition enhances our presence in key markets in Europe, broadens the scope of our capabilities and strengthens our client base. This deal is expected to close in the first half of 2010 and is subject to customary regulatory approvals from the relevant authorities.

2009 Progress on medium-term objectives

In 2008, we anticipated challenging financial market conditions – including more cyclical and structural changes in the financial services industry – and established a set of medium-term objectives (shown on page 3) that reflected our focus on both current performance as well as on long-term opportunities. We continue to make progress toward these objectives.

CHIEF EXECUTIVE OFFICER'S MESSAGE

2009 Progress on medium-term objectives

	Medium-term objectives	2009 Progress
Diluted EPS growth	7%+	(24)%
Defined operating leverage (1)	> 3%	3.5%
ROE	18%+	11.9%
Tier 1 capital ratio	8.5%+	13.0%
Dividend payout ratio	40% - 50%	78%

(1) Our defined operating leverage is a non-GAAP measure and refers to the difference between our revenue growth rate (as adjusted) and non-interest expense growth rate (as adjusted). For further information, refer to the Key performance and non-GAAP measures section of our Management's Discussion and Analysis.

In line with these expectations, the recessionary environment, challenging market conditions, and the need to strengthen capital positions hurt our earnings per share (EPS) growth, return on equity (ROE) and dividend payout ratio, though we made positive progress toward our objectives for defined operating leverage and Tier 1 capital.

Our defined operating leverage for 2009 was 3.5 per cent, very strong in the current environment, reflecting strong revenue growth and effective cost management. If we exclude the reduction of the Enron Corp.-related litigation provision in 2008, as it does not reflect our normal course operating expenses, our defined operating leverage is 8.2 per cent.

Common and preferred share issuances significantly strengthened our Tier 1 capital ratio during the year but contributed to a dilutive impact on our EPS and ROE growth: Despite the fact that adjusted net income (excluding the goodwill impairment charge) grew by 7 per cent, the share dilution caused EPS and ROE to fall.

2010 Outlook

We remain committed to these medium term objectives for 2010. We expect our businesses to benefit modestly from recoveries in Canadian and global economies but we also expect credit concerns to persist through at least the middle of 2010.

The Canadian economy is currently forecast to grow by 2.6 per cent in 2010, reflecting increased consumer spending, improvements in the U.S. economy, continued low borrowing costs and the impact of government stimulus projects. Credit quality is expected to remain under pressure, although with some improvement in 2010, as we anticipate the unemployment rate in Canada to peak early in 2010. Our forecast for the U.S. economy is for 2.5 per cent growth in the next year as consumer spending and the housing market show modest signs of improvement. Credit quality is expected to remain under pressure in the U.S. but should begin to stabilize through 2010 reflecting modest improvements in consumer and business spending and continued improvement in financial markets. Outside North America, we expect a gradual recovery in global economies in 2010 with a slower pace of growth in advanced economies, such as the U.K. and Eurozone countries. We anticipate solid growth in China will lead emerging economies, as a result of continued fiscal stimulus, increased domestic demand, and modest export growth. We project global capital markets will continue to stabilize and credit spreads will tighten further as the global economic recovery continues and access to credit improves.

Positioned to seize opportunities for long-term growth

In the midst of the most difficult financial conditions in a generation, RBC has proved equal to the challenge. As many global competitors stumbled or fell, RBC operated with integrity and continued to produce results of which we are justifiably proud. Where we encountered difficult conditions, we faced our challenges head on. Guided by our long-term strategy, our efforts generated momentum across all our businesses and give us greater confidence as we seek to extend our performance into and through 2010.

Despite our success, we will not become complacent. Our clients' needs are changing and to remain relevant we will continue to use our financial strength and expert capabilities to provide them with sound advice and excellent service. Our experience in 2009 has reinforced our appreciation for the need to continue to improve and adapt the way we deliver products and services as well as to continue investing in the infrastructure necessary to support our businesses now and in the future. Our cost discipline will enable us to reinvest in our growth and capabilities at a time when many of our competitors cannot.

I believe RBC is now one of the better positioned financial companies in the world because our employees have been relentless about pursuing all aspects of our business with the best interests of our clients in mind. At every chance, each of our 80,000 employees has focused on helping our clients be more confident about their future. I thank all of them sincerely for their professionalism, and for their continued commitment to our clients and to each other.

Finally, I want to thank all our clients for their trust through these difficult times. We will continue to work hard so that we earn the right to serve you every day.

Gordon M. Nixon
President and Chief Executive Officer

CHAIRMAN'S MESSAGE

The hallmark of a high performing board is collective business experience that can be brought to bear in changing circumstances. Over the past two years, global market uncertainty has presented the Board of Directors with both opportunities and challenges, while confirming the relative strength and stability of RBC. During this challenging time for the financial services industry worldwide, RBC has continued to demonstrate the resilience and prudent management that shareholders count on. In RBC's boardroom this period has been marked by thoughtful analysis, active engagement with management and shareholders, and openness to change.

Your board has responded with a sharp focus on the oversight of key risks, while continuing to apply its sound and progressive governance practices and policies. Comprehensive discussion and analysis of exposures to complex risks and reviews of the quality and adequacy of risk controls throughout the year positioned directors to carefully assess the ability of RBC to execute its business strategy in a rapidly changing business and regulatory environment. We actively engage in reviewing the organization's risk profile relative to its risk appetite and provide advice and support to the senior management team in their effort to continuously enhance the strength of RBC's risk capabilities. This includes overseeing a structured approach to defining the type and amount of risk that is appropriate to accept and seeking to ensure there is an appropriate balance of return for the risks that are prudently assumed. The impact of our stewardship in this area translates into a strong, enterprise-wide risk management culture, supported by risk management practices and frameworks that have proven to be effective and robust.

This response has been enabled by the diverse and broad business expertise represented on the Board of Directors which has been augmented by our continuing director education program. Over the past year, in addition to presentations on the organization's risk profile and appetite, and methodologies used in assessing and controlling complex risks, these education sessions have emphasized liquidity and funding risk management, accounting standards, and governance and compensation, further equipping directors to provide current and knowledgeable advice to management.

Your Board of Directors has long been proactive in adopting best practice compensation principles and processes, but the past year has seen particular attention paid to the governance and controls in place for executive compensation. RBC's approach to compensation governance aligns with the Principles for Sound Compensation Practices issued this year by the Financial Stability Board, the forum of international regulators created by the G20 to promote financial stability. While pay for performance remains a key principle underpinning long term shareholder value creation, we remain equally committed to ensuring our compensation program design and governance practices align with sound risk management principles.

Transparency is another fundamental aspect of good governance. Your board takes seriously RBC's commitment to shareholder engagement and clear and comprehensive disclosure. The coming year will mark shareholders' first opportunity to participate in a "say on pay" advisory vote on the executive compensation report in our 2010 proxy circular. The Board of Directors believes shareholders should have the opportunity to review and fully understand the objectives, philosophy and principles that the board has used to make compensation decisions and is confident shareholders will review the compensation disclosure thoughtfully. In addition to the advisory vote, the board looks forward to direct and constructive interaction with shareholders on this and other important issues.

As Chairman, my goal is to instill a common vision and provide leadership for your Board of Directors, advancing our dynamic approach to corporate governance. The board is proud to be actively engaged in the achievements of RBC and extends appreciation to management and employees around the world for their contributions to the success of the organization. While continuing to operate in a challenging environment, the Board of Directors, management and employees remain focused on enhancing the stability and strength of RBC and creating value for shareholders.

On behalf of the Board of Directors,

David P. O'Brien
Chairman of the Board