



Royal Bank of Canada

2011 Annual Report





ABOUT RBC

Royal Bank of Canada (RY on TSX and NYSE) and its subsidiaries operate under the master brand name RBC. We are one of Canada's largest banks as measured by assets and market capitalization, and are 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 74,000 full- and part-time employees who serve close to 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 56 other countries.

For more information, please visit rbc.com.

VISION

Always earning the right to be our clients' first choice.

VALUES

Service: Excellent service to clients and each other

Teamwork: Working together to succeed

Responsibility: Personal responsibility for high performance

Diversity: Diversity for growth and innovation

Integrity: Trust through integrity in everything we do

STRATEGIC GOALS

- ▶ In **Canada**, to be the undisputed leader in financial services;
- ▶ **Globally**, to be a leading provider of capital markets and wealth management solutions;
- ▶ In **targeted markets**, to be a leading provider of select financial services complementary to our core strengths.

VISIT OUR ONLINE ANNUAL REPORT

View our online report at rbc.com/ar2011 (also available for mobile devices).



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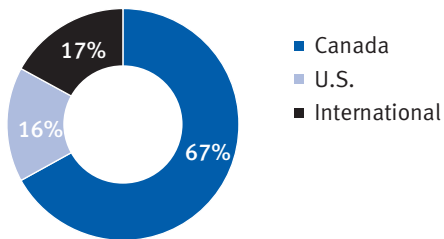
See our Glossary for definitions of terms used throughout this document.

INVESTING IN STRENGTH

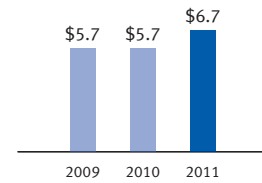
Our strength, stability and strategy position us for long-term success:

- ▶ #1 market position in Canada with premier, globally competitive businesses;
- ▶ Well-diversified by business and geography;
- ▶ Capital base, credit ratings and balance sheet liquidity among strongest of all banks globally.

Revenue by Geography⁽¹⁾ (Three-Year Average)



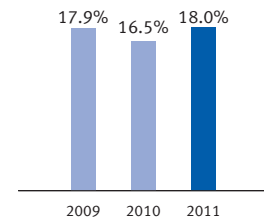
Net Income from Continuing Operations⁽²⁾ (C\$ billion)



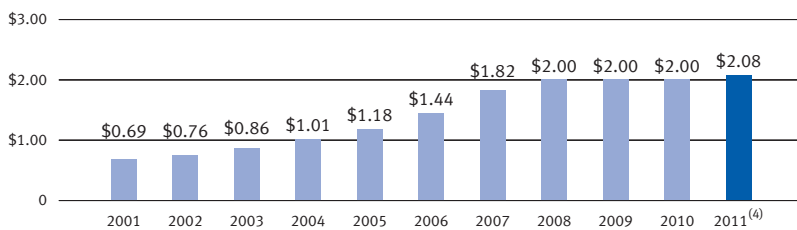
Revenue by Business Segment⁽¹⁾ (Three-Year Average)



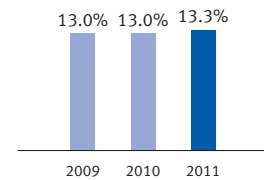
Return on Equity⁽²⁾



Dividends Declared



Tier 1 Capital⁽³⁾



- (1) Amounts represent continuing operations and exclude Corporate Support
 (2) Presented on a continuing operations basis
 (3) Presented on a consolidated basis
 (4) Announced quarterly dividend increase in Q2, 2011 of 8% to \$0.54 per share

A Year of Strong Growth in a Challenging Environment

2011 was a year of strong business and earnings growth for RBC. We delivered record results in Canadian Banking, Wealth Management and Insurance, and strong growth in our corporate and investment banking business in Capital Markets. We continued to extend our lead in Canada and grow our presence globally. We achieved all this in a year marked by crisis conditions in Europe and global economic and market upheaval. In response to this environment, we took steps to further de-risk our balance sheet and actively strengthen our capital base, both of which are now among the strongest for banks in the world. Our brand stands as a symbol of integrity, strength and stability. While many global banks have been forced to retrench, RBC continues to focus on serving clients and executing on our long-term strategy to build our future.

In keeping with our commitment to actively deploy our capital where we can generate the highest returns, we announced the sale of our U.S. regional retail banking operations¹. We incurred a loss of \$1.6 billion related to the sale, comprised primarily of a write-off of \$1.3 billion of goodwill and intangibles. These are now classified as discontinued operations. The loss impacted our consolidated net income for the year, which was \$4.85 billion.

Our earnings from continuing operations were \$6.65 billion, up 16 per cent from the prior year, demonstrating the strength of our strategy, the importance of our diversified business mix and the ability of our people to differentiate RBC as an exceptional source of advice for clients. Diluted earnings per share (EPS) were \$4.45, up from \$3.82, and return on common equity (ROE) was 18 per cent, up from 16.5 per cent. On a continuing operations basis, we met or exceeded all of the financial objectives we laid out last year and we increased our quarterly dividend by 8 per cent.

Over the medium term, we continue to outperform our global peers on returns to shareholders. Our three-year average annual total shareholder return (TSR) ranks us in the second quartile compared to our global peer group, and our five-year TSR ranks us in the first quartile.

Despite double-digit earnings growth from continuing operations, our recent market performance has been affected by the conditions in the U.S. and Europe. These are complex situations that will take time to work through. In the interim, we are focused on strengthening our financial and competitive

position, and we remain positive about our continued leadership in Canada and our global growth.

Steady Progress in our Focused, Long-Term Strategy

Strategies among Canadian banks have diverged in the past 10 years. We believe our approach will give us a distinct advantage over the next decade.

Our strategy is to be a universal bank in Canada with the number one market position, and we continue to grow our volumes and win market share. Internationally, we are building premier, globally competitive businesses that primarily serve corporate, institutional and high net worth clients. In today's environment, we are seeing increased opportunities as clients are attracted to the strength and capabilities of RBC and are reconsidering traditional banking relationships. Our brand also helps us attract new top tier employees to RBC, and is helping to position our global franchises in capital markets and wealth management to deliver profitable long-term growth for our shareholders.

Our growth will be governed by our commitment to a diversified business mix through the cycle: approximately 75 per cent of our revenue from banking, insurance and wealth management, and 25 per cent from capital markets. Our diversification is a pillar of our earnings stability, sound risk management and growth.

We made progress on each of our three strategic goals in 2011.

Goal #1: Extend our Number One Position in Canada

During the year, we advanced our leadership position in Canada across virtually all of our businesses.

Our **Canadian Banking** business delivered record net income this year, up 15 per cent, and contributed just over half of our total earnings. We rank number one or number two in market share in all consumer and business product categories, and we lead Canadian banks in overall volume growth. Our outperformance in the market is also driven by our number one rank in cross-selling (2011 Ipsos-Reid survey). For instance, 18 per cent of our customer households have transaction accounts, investments and borrowing products with us – compared to 13 per cent for our next nearest competitor, and our peer average of 10 per cent. Our Canadian Banking business won numerous awards over the year for everything from financial planning and advice to telephone

(1) The transaction is expected to close in March of 2012.

and ATM banking excellence and online banking. These included the top spot in Forrester's 2010 Canadian Bank Secure Web Site rankings, Survisor's 2011 Consumer Online Banking scorecard and Dalbar Inc.'s ranking of Canadian online direct brokerages. This year RBC also became the first Canadian bank to launch fully integrated mobile banking applications for BlackBerry®, iPhone® and Android.

We are leveraging our distribution network and mobile sales force – the largest in the country – to continue cross-selling our broad products and services. We are also taking advantage of our scale to reduce costs and improve efficiency. We are investing in new digital solutions and advice channels so that we remain an unmatched resource for financial advice and solutions. This includes our retail store concept, which provides a new way of delivering banking services through a hybrid of best-in-class retail shopping and financial services.

RBC Insurance delivered record earnings and a strong year of business growth. We ranked highest overall in customer satisfaction for 2011 among auto insurance companies in Ontario and the Atlantic Region by J.D. Power and Associates. And for a record-breaking 10th straight year, RBC Insurance was named the favourite travel insurance provider in the 2011 Agents' Choice Awards. We see opportunities to increase sales through low-cost proprietary channels while maintaining third party distribution and strengthening our product offering and client relationships.

Our **RBC Wealth Management** businesses in Canada also built on their leading market shares this year. Dominion Securities, which is approximately twice the size of our nearest competitor by assets, Phillips, Hager & North Investment Counsel, a leader in discretionary wealth management, and our estate and trust services group all grew their businesses by collaborating across the organization to offer our clients a full suite of wealth management products and services. Our asset management business, RBC Global Asset Management, is the largest retail fund company in Canada, with 15 per cent market share and more than \$110 billion of assets under management, and this year we became the largest in long-term funds under management as well. For four consecutive years, we have exceeded 25 per cent of the industry net sales of long-term mutual funds. Our goal is to continue to extend our lead in asset management by further leveraging our global capabilities, and expand our market share in the high net worth segment in Canada.

RBC Capital Markets had a strong year in corporate and investment banking and continued to lead in Canada. As the

top underwriter in debt capital markets, we captured 33 per cent of the Canadian corporate bond market in 2011, our highest market share since 1999 (Bloomberg). We were named Best Investment Bank in Canada for the fourth year in a row by *Euromoney*, and for the second year in a row, we were named the number one team for Canadian Equity Research by the 2011 Brendan Wood International Study of Institutional Investors. We see opportunity in Canada to further grow our lead by continuing to bring our global capabilities to our Canadian clients.

Our brand strength in Canada benefits all our businesses. This year, we were named Brand of the Year by *Strategy* magazine and Most Valuable Brand in Canada by *Brand Finance*. Our investments in our brand are paying off and will continue to bolster our growth in Canada and internationally.

Goal #2: Grow Capital Markets and Wealth Management Globally

For the past several years, we have been building the foundation to be a global leader in both Capital Markets and Wealth Management. The strength and stability of RBC sets us apart in the global marketplace and enables us to grow our global client base and win market share. We are also focusing on collaborating across these two businesses to serve our clients.

In **RBC Capital Markets**, our corporate and investment banking business had a strong year notwithstanding difficult market conditions. In line with our strategy to shift our business mix, corporate and investment banking grew revenue by 20 per cent, gaining market share and winning significant mandates across geographies. We moved up to 11th largest investment bank by fees globally according to Bloomberg, from 14th last year. Our past investments in our U.S. business are paying off, as we successfully expanded our sector coverage, corporate loan book, client relationships and mandates. Our European credit business was ranked number one in Fixed Income e-Trading and Non-Core Currency bonds and we received top rankings in several categories including Overall Credit House, Dollar bonds, Sovereign bonds, Sterling bonds and Euro bonds in *Credit* magazine's 2011 European Credit awards.

While our overall European franchise remains strong, in 2011, our fixed income trading business faced significant challenges driven primarily by concerns over the weakening global economy and the European sovereign debt crisis. We have been proactively reducing exposure and scaling our business in response to the market while remaining committed to our global clients. While we expect trading conditions to continue

to be challenging, we see opportunities to strengthen our corporate and investment banking business and are shifting capital accordingly. We also see opportunity in Asia, where we opened a new trading floor in Hong Kong. We will prudently take advantage of the market disruption to grow, with a careful eye on managing risk and protecting our balance sheet.

RBC Wealth Management has evolved significantly in the past few years. RBC is now the sixth-largest wealth manager in the world by client assets, the fifth-largest by revenue and the fourth-largest by earnings, according to Scorpio Partnership's most recent survey. We continue to win international accolades, including Best Overall Private Bank in Jersey and the Caribbean by *EuroMoney* and Best Institutional Trust Team by the U.K.-based Society of Trust and Estate Practitioners. This year we achieved top ranking for investor satisfaction among full-service investment firms in the U.S. from J.D. Power and Associates, evidence that our focus on improving client experience is working. In our global asset management business, we started to leverage the acquisition of U.K.-based BlueBay Asset Management and will consider additional acquisitions as opportunities arise.

We have a strong foundation for growth and the recent launch of our global advertising campaign highlights the strength, stability, global reach and integrity of RBC, which set us apart in the market. We intend to grow our global asset management business, to increase our market share overall with high net worth and ultra high net worth investors, and to expand in the U.K. and emerging markets.

Goal #3: Invest and Build in Select International Businesses

Our **Caribbean Banking** business has been under pressure from continued weakness in the tourism industry and local economies. RBC has a strong franchise and Caribbean banking remains an attractive business with healthy margins over the long-term. We are strengthening the business for the future by undertaking an extensive reorganization and branding initiative.

RBC Dexia Investor Services, our 50 per cent joint venture with the Dexia Group, is a top 10 global custodian serving a diverse base of institutional and corporate clients in 15 countries. This past year, RBC Dexia IS continued to execute its growth strategy, broadened its suite of product services, and won several significant industry awards in Canada and globally for its performance and client service. This business faces a challenging environment in the near-term as interest rates remain low and stock markets continue to be volatile and

under pressure. However, RBC Dexia IS is well positioned to benefit from the long-term demographic trends that point to growth in wealth management around the world.

Improved our Financial Flexibility and Strength

We have a strong financial position and over the last few years we have steadily improved the liquidity and risk profile of our balance sheet. Our capital base and credit ratings are among the strongest of financial institutions around the world. Our Tier 1 capital ratio stands at 13.3 per cent at year-end and our Tier 1 common ratio at 10.6 per cent. In this environment of challenging market conditions and regulatory change, we believe it is prudent to maintain excess capital. Our financial strength provides a significant competitive advantage and financial flexibility to take advantage of opportunities.

Underpinning our financial strength is a strong risk culture that is in line with our conservative, client-first approach. We are comfortable with our exposures in Europe, which are consistent with our disciplined approach, and will continue to actively monitor events and serve our global clients.

In this environment, operational excellence and efficiencies are more critical than ever. We have embarked on an enterprise-wide cost management program that will allow us to reduce the rate of expense growth while investing to strengthen our competitive position and grow earnings.

Invested in Our People and Communities

Our competitive advantage is the quality of advice we offer clients, and behind that advice are approximately 74,000 knowledgeable, client-focused and committed employees. To attract and retain our people, we work hard to build a high performance, high engagement and collaborative culture, and to provide them with opportunities to grow and succeed. Our shared values of service, teamwork, responsibility, diversity and integrity help guide our behaviours and decisions, inspire us to lead in diversity and inclusion and define what it means to be a responsible corporate citizen.

I'm proud that we consistently achieve high employee engagement ratings and remain an employer of choice. This year we were named one of the Best Workplaces in Canada, one of Canada's Top 100 Employers, one of Canada's Best Diversity Employers, one of Canada's Greenest Employers, and one of Canada's Best Employers for New Canadians.

RBC and the people who work here share a commitment to improving our communities through our 10-year, \$50-million Blue Water Project and our support for children's mental

CHIEF EXECUTIVE OFFICER'S MESSAGE

health, after-school projects, film and the arts, Olympic athletes and community hockey. In New York and London, the RBC Race for the Kids raised over \$1.5 million for children's charities this year. In 2011, RBC was named one of Canada's Top 50 Socially Responsible Corporations, and one of Canada's Best 50 Corporate Citizens. We were also named to the Global 100 Most Sustainable Corporations list and were listed on the Dow Jones Sustainability Index for the 12th consecutive year.

Our Thanks

On behalf of the RBC senior management team, I would like to thank our RBC employees around the world for putting our clients first. We would also like to thank our 15 million clients

for their business, and to welcome all of our new clients who decided to switch to RBC this year. And finally, to our shareholders, we remain committed to moving forward on our strategy in 2012 and reinforcing your confidence in a strong and growing RBC.



Gordon M. Nixon
President and Chief Executive Officer

In the face of ongoing uncertainty in global markets, the Board of Directors maintained its vigilant focus in 2011 on the risk environment and on positioning RBC for the future. We engaged actively with management to ensure that the organization remains resilient and responsive to challenges and opportunities.

Our stakeholders expect that RBC will demonstrate a strong risk discipline, and a key priority of the board is embedding a prudent risk culture throughout the organization. The Board of Directors drew from its collective business experience to oversee risk management, adopting comprehensive frameworks to identify principal risks to the businesses and the controls implemented to manage them. Our processes for determining the Bank's appetite for risk and monitoring risk have continued to improve in an evolving risk environment, and must continue to do so. Within this context, we reviewed management's plans over the past year to ensure they are balanced and focused on generating shareholder value within acceptable risk tolerances.

In addition to reviewing strategies for managing risk, we acted as key advisors in the development of strategic business plans that will contribute to our goals for growth over the medium and long term. During 2011, the board reviewed aspects of RBC strategy at every meeting, taking into account the opportunities and risks of the businesses. The board participated with management in the annual session dedicated to strategic planning. Throughout the year we assessed corporate performance against objectives to monitor the organization's progress. We approved the enterprise strategy as well as major transactions and capital expenditures aligned with the strategic plan.

To assist board members in understanding their responsibilities and to keep their knowledge current, we provide an ongoing education program. In 2011, several educational presentations focused on the transition to International Financial Reporting Standards (IFRS), with targeted sessions aimed at ensuring directors have thorough understanding of IFRS accounting standards that significantly impact RBC. Other presentations were aimed at deepening the


board's understanding of areas such as capital and liquidity and the Bank's risk profile relative to global peers.

In setting the tone at the top, our goal is to foster a culture of shared values and integrity that is critical to the long-term success of RBC. All of our efforts are marked by an emphasis on trust, integrity and good governance. To maximize shareholder value on a sustainable basis, these values must extend beyond the Board of Directors into every segment of business activity. Our reputation for leading corporate governance practices continues to be cited among the world's best. We remain firmly committed to continuous improvement of the strong and effective governance standards of RBC and to transparency in our disclosure.

United by our common values and goals, our board also brings more value to our shareholders through its diversity of thought and backgrounds. Our Corporate Governance and Public Policy Committee regularly reviews and assesses the board's existing strengths and the evolving needs of RBC. In 2011, we were pleased to welcome our newest directors – Heather Munroe-Blum and Bridget van Kralingen – who are both well-recognized in their respective fields and whose experience and expertise are already adding an important dimension to the organization.

As Chairman of the Board, my goal is to provide leadership to the Board of Directors – directing its collective strengths and experience to supervise and guide management in enhancing the stability of the enterprise and creating long-term value for shareholders. The board is proud to be actively engaged in the achievements of RBC. We extend appreciation to management and to the approximately 74,000 RBC employees for their commitment throughout the challenges of 2011 to delivering value for shareholders and clients around the world.

On behalf of the Board of Directors,



David P. O'Brien
Chairman of the Board