



ROYAL BANK OF CANADA ANNUAL REPORT 2012



ABOUT RBC

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 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, investor services and wholesale banking on a global basis. We employ approximately 80,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 49 other countries.



- › For more information, please visit: rbc.com
- › To view our online annual report, please visit: rbc.com/ar2012 (also available for mobile devices).

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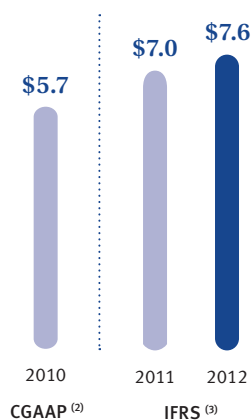
See our Glossary for definitions of terms used throughout this document.

STRENGTH IN OUR PERFORMANCE

We are extending our lead in Canada, selectively growing our presence globally and delivering strong results. Our financial strength, proven long-term strategy and diversified business mix position us for continued success.

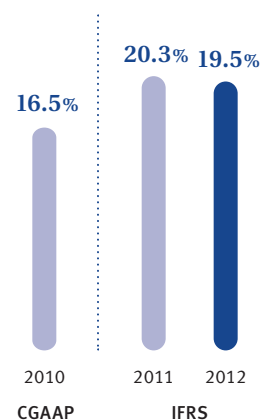
STRONG EARNINGS

Net Income ⁽¹⁾
(C\$ billion)



PROFITABLE GROWTH

Return on Equity ⁽¹⁾



(1) Presented on a continuing operations basis.

(2) Canadian Generally Accepted Accounting Principles

(3) International Financial Reporting Standards

.....

#1 in Canada
and winning market share

.....

Focused growth
in the U.S. and select
international markets

.....

Diversified
business mix

.....

Strong & stable
financial position

VISION

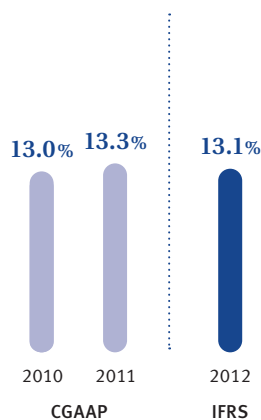
Always earning the right to be our clients' first choice.

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.

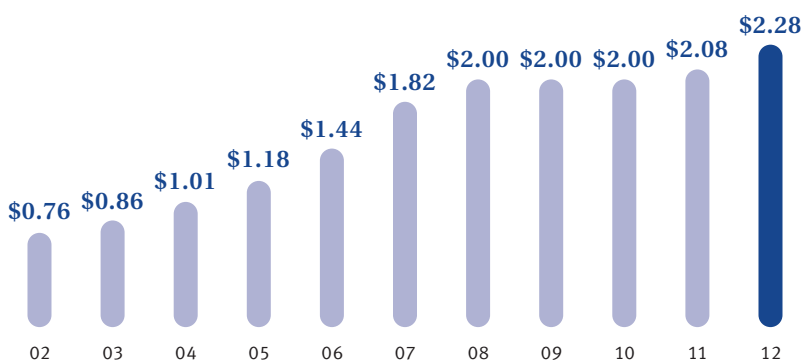
FINANCIAL STRENGTH

Tier 1 Capital ⁽¹⁾



DELIVERING VALUE TO SHAREHOLDERS

Dividends Declared per Share



(1) Presented on a consolidated basis.

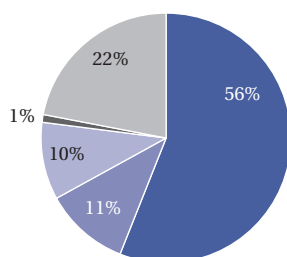
This annual report contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *United States Private Securities Litigation Reform Act* of 1995 and applicable Canadian securities legislation. We caution readers not to place undue reliance 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 in the Management's Discussion and Analysis.

STRENGTH IN OUR BUSINESS

PERSONAL & COMMERCIAL BANKING

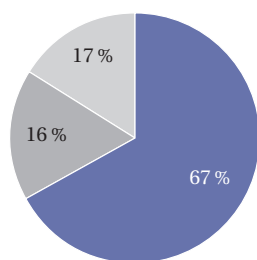
2012 EARNINGS BY BUSINESS SEGMENT ⁽¹⁾

- Personal & Commercial Banking
- Wealth Management
- Insurance
- Investor & Treasury Services
- Capital Markets



2012 REVENUE BY GEOGRAPHY ⁽¹⁾

- Canada
- U.S.
- International



(1) Amounts represent continuing operations and exclude Corporate Support.

WEALTH MANAGEMENT

The Canadian market leader continuing to gain profitable market share

Personal & Commercial Banking provides a broad suite of products and financial services to individual and business clients. RBC is the largest retail bank in Canada; we also have Caribbean and U.S. cross-border banking businesses.

Highlights for 2012

- Grew earnings by 9% with ROE of 31.5%
- Net interest margin (NIM) of 2.86%
- Volume growth (loans and deposits) in Canadian Banking of 8.4% from last year and well ahead of peer average
- Efficiency ratio of 46.9%, improved from 47.3% last year in Canadian Banking
- Named "Best Retail Bank in North America" (2012 Retail Banker International Awards)
- Highest cross-sell among Canadian peers (Ipsos-Reid)
- Won awards for top service and offerings across major lines of business in Canada
- Announced agreement to acquire Canadian auto finance and deposit business of Ally Financial Inc.

Positioned for success

- Building on leading market positions in Canada
- Extending our Canadian sales power
- Eliminating costs and reinvesting for the future
- Building on strengths in innovation and technology to differentiate the client experience in the Caribbean and U.S.

A leading global wealth and asset manager

Wealth Management serves affluent, high and ultra-high net worth clients globally with a comprehensive suite of investment, trust, banking, credit and other wealth management solutions, while providing asset management solutions to institutional and individual clients.

Highlights for 2012

- AUA and AUM up by 10.1%
- 6th largest global wealth manager by assets under management ⁽²⁾
- Ranked #1 among bank-owned wealth advisory firms in Canada six years in a row ⁽³⁾
- RBC Global Asset Management continued to be an industry leader in performance awards ⁽⁴⁾
- Leader in industry long-term fund sales, capturing over 23% of the market over the last 12 months ⁽⁵⁾
- Grew assets in the U.S. despite a challenging environment
- Completed acquisition of Latin American, Caribbean and African private banking business of Coutts, the wealth division of The Royal Bank of Scotland

Positioned for success

- Building a high-performing global asset management business
- Expanding high net worth and ultra-high net worth market share
- Leveraging RBC and RBC Wealth Management strengths and capabilities

(2) Scorpio Partnership Global Private Banking KPI Benchmark 2012

(3) *Investment Executive* 2012 Brokerage Report Card

(4) Lipper Fund Awards 2012 (Won Best Overall Fund Group, Best Bond Fund Group)

(5) Investment Funds Institute of Canada (As at Sept. 30, 2012)

We serve our clients — large and small, personal and commercial, corporate and institutional — through a number of business lines and across many geographies. Our breadth of products and services, combined with our expert advice, allows us to offer our clients the best of RBC in order to meet all of their financial needs.

INSURANCE

A market leader with a broad suite of products and strong distribution

Insurance provides a wide range of life, health, home, auto, travel and wealth accumulation solutions to individual and group clients across Canada. We also offer reinsurance solutions for clients around the world.

Highlights for 2012

- Grew earnings by 19% with ROE of 46.8%
- Achieved highest ever marks for “Likelihood to Recommend” and “Ease of Doing Business”⁽¹⁾
- Improved distribution efficiency through streamlined processes
- Integrated retail insurance branches and career sales force into our new field sales channel to better deliver advice-based solutions
- Internationally added new counterparties to grow our business

Positioned for success

- Improving distribution efficiency and deepening client relationships
- Focused on making it easier for clients to do business with us
- Pursuing select international opportunities to grow our reinsurance business

(1) Market Probe Canada (as of July 31, 2012)

INVESTOR & TREASURY SERVICES

A top 10 global custodian with an integrated client offering

Investor & Treasury Services offers global custody and fund administration, as well as an integrated suite of products and services to institutional investors worldwide. We also provide cash management, correspondent banking and trade finance services, as well as funding and liquidity management.

Highlights for 2012

- Completed acquisition of remaining 50% stake in global custodian; rebranded the business RBC Investor Services
- Ranked Best Custodian Overall (*Global Investor*, 2012) and Custodian of the Year in Canada (Custody Risk Americas Awards)
- Won Transfer Agent of the Year and Fund Administrator of the Year, Luxembourg (Custody Risk European Awards 2012)

Positioned for success

- Leveraging the reputation and financial strength of RBC to win business and drive growth
- Building on the wealth management and capital markets capabilities of RBC
- Capitalizing on favourable long-term industry and demographic trends

CAPITAL MARKETS

A leading North American investment bank with select global reach

Capital Markets provides a wide range of products and services including corporate and investment banking, equity and debt origination and distribution, and structuring and trading to public and private companies, institutional investors, governments and central banks.

Highlights for 2012

- Grew earnings by 22% with ROE of 13.5%
- Ranked 10th largest global investment bank by net revenue⁽²⁾
- Largest increase in investment banking wallet share among top 25 global banks (from 1.8% to 2.5% in one year)⁽²⁾
- Ranked 10th in global loans revenue, up from 14th in 2011⁽²⁾
- Named Best Investment Bank in Canada across Equity, Debt and M&A⁽³⁾

Positioned for success

- Extending our leadership position in Canada
- Expanding and strengthening client relationships in the U.S.
- Building on core strengths and capabilities in the U.K., Europe and Asia
- Optimizing capital use to earn high risk-adjusted returns on assets and equity

(2) Dealogic (Jan. – Sept. 2012)

(3) *Euromoney*

MESSAGE FROM THE CEO

Across our businesses this year we gained market share, deepened client relationships, added new clients and invested in building strong franchises in Canada and globally.

RECORD RESULTS

*for the year and in
three of our
business segments*

I am proud of where RBC stands today and excited about our future in global financial services: our 2012 performance was strong despite a challenging environment, our businesses are growing, and we made good progress in executing our long-term strategy.

Our confidence comes from the strength of the franchise we have built. Our longstanding leadership in our home market of Canada has provided us with a strong foundation to build on, both domestically and selectively in the U.S. and international markets. Our dedicated employees earn the right every day to be our clients' first choice by delivering trusted advice to help them achieve their financial goals.

Record performance in 2012

We delivered record earnings of \$7.5 billion this year, up \$1.1 billion or 17 per cent from the prior year. On a continuing operations basis, our earnings of \$7.6 billion were up 9 per cent, demonstrating the earnings power of our diversified business model. These results reflect record earnings in Personal & Commercial Banking, Capital Markets and Insurance.

Diluted earnings per share (EPS) were \$4.93 (\$4.96 on a continuing operations basis), and return on common equity (ROE) was 19.3 per cent (19.5 per cent on a continuing operations basis), up from 18.7 per cent. Our Tier 1 capital ratio remained strong at 13.1 per cent.

This year, we extended our leadership position and executed our long-term growth strategy while maintaining prudent risk management and disciplined cost control. Across our businesses we gained market share, deepened client relationships, added new clients and invested in building strong franchises in Canada and globally.

We have been aggressively managing our costs relative to our revenue growth to improve our efficiency, so we can reinvest savings in our businesses to strengthen financial performance and resilience in a lower growth economic environment.

We have a very strong capital position today, thanks to our conservative approach to managing capital over the past few years through an environment of challenging market conditions and regulatory change, including the new Basel III requirements that become effective for Canadian banks in January 2013. We have successfully reduced our risk profile and increased our balance sheet liquidity.

Our financial strength remains a clear competitive advantage in today's environment and provides flexibility. As we make decisions about capital deployment, our priority is to deliver strong returns to our shareholders while finding the optimal balance between investing in our businesses, returning capital to our shareholders and pursuing select acquisitions for long-term growth.

This year we announced two dividend increases for a total increase of 11 per cent, and put in place a share buyback program for 2013.

Earlier this year we closed the sale of our U.S. regional retail banking operations for US\$3.6 billion, and we successfully transitioned our clients to our new U.S. cross-border banking platform.

In April, we announced that we bought out our joint venture partner in our global custody and fund administration business for \$1.0 billion. This makes RBC a top 10 player in institutional investor services and complements our global wealth management and capital markets businesses. We believe we can leverage the RBC reputation, brand and financial strength to drive further value.



“While 2013 will bring industry and economic challenges, I am confident that RBC will continue to deliver value for our clients, shareholders, employees and communities. We have the right strategy, the right values and the right people.”

GORDON M. NIXON
President and Chief Executive Officer

In October, we agreed to buy the Canadian auto finance and deposit business of Ally Financial Inc., positioning us as a leader in this segment. The \$1.4 billion investment (net of excess capital) ⁽¹⁾ adds scale to our existing auto financing business and supports our goal to be the leading provider of financial services in Canada.

We achieved our financial objectives for the year in terms of EPS growth, ROE, capital ratios and dividend payout ratio. We delivered a three-year total shareholder return (TSR) in the second quartile and a five-year TSR in the top quartile.

Focused strategy

While the market environment in recent years has forced many of our competitors to change direction, our long-term strategic goals remain consistent:

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

We are staying the course and investing in businesses that focus on our clients, earn good returns and grow value for the organization.

In Canada, where we generate over two-thirds of our revenue, we have an established leadership position and see opportunities to gain further market share, grow revenue faster than the industry, and increase net income. We intend to achieve this by leveraging our distribution strengths, deepening client relationships, continuing our cost management and price competitiveness, delivering

client value through an engaged and diverse workforce, and investing in technology that benefits our clients.

Outside Canada, we are focusing on the largest accessible revenue pools where we can leverage our strengths: high net worth, corporate and institutional clients in the U.S., U.K. and key emerging market hubs such as Singapore and Hong Kong. This client base values our expertise, our global reach and our track record of stability.

Our brand strength underpins our growth strategy. Not only is the RBC brand as strong as it's ever been in Canada, but internationally our brand has become synonymous with integrity, strength and safety. With the Canadian banking system widely recognized as the world's soundest, being from Canada is a tremendous competitive advantage in today's world.

Strong competitive position

The global economic and industry environment remains uncertain. Europe's sovereign debt and banking crisis continues, while fiscal and regulatory uncertainty is affecting the outlook in the U.S. Consumers are deleveraging in developed markets. Weak economic growth projections are constraining equity markets and contributing to an extended period of low interest rates. While Canada's economy and job market have fared relatively well, housing markets are softening, as we have forecast for some time. Despite changes in the housing markets and consumer debt levels in Canada, our retail portfolios are well managed and remain strong.

Against the backdrop of these challenges, RBC has the competitive strengths, people and strategy to grow and prosper.

19.5%
ROE

from continuing operations

Announced

11%

increase in quarterly dividend in 2012

(1) Subject to certain closing adjustments and including the excess capital, this will result in total consideration of \$3.1 to \$3.8 billion, depending on the size of the dividend taken out by the seller prior to closing. Closing is expected in the first calendar quarter of 2013.

OUR 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.

67%

of revenue from Canada⁽¹⁾

In Canada, we have the largest and most profitable retail bank. We have a number one or two market share in each of our core businesses – and we continue to extend this lead by winning more market share and growing earnings faster than our peers. With the largest distribution network, the broadest range of products and services, the proven strength in innovation and technology and the size and scale to improve our efficiency, RBC has strong momentum. We are well positioned to outgrow the market in both personal and commercial volumes.

Wealth Management is also a clear leader in Canada. We are the largest full-service wealth manager offering investment, trust and insurance solutions to our clients and we are gaining market share in the high net worth market with room to grow. We are also the largest asset manager in the country – number one in retail mutual funds and a top three provider to institutional clients. We are focused on extending our lead in asset management and in the high and ultra-high net worth markets through our expert advice and best-in-class products, our unmatched distribution network, our client-first approach and our ability to offer clients leading solutions from across the bank.

Our insurance business is one of the largest Canadian bank-owned insurance companies. Its strength is fuelled by the RBC brand, a broad product suite, and leading distribution capabilities. With our highest ever scores in customer satisfaction surveys, we are making it easier and more convenient for clients to do business with us while increasing our efficiency.

Investor & Treasury Services, a new business segment within RBC, was created to better serve the needs of our institutional clients in Canada and around the world. This segment also has a base of strength at home, as RBC Investor Services is the largest custodian in Canada. We consistently win awards for excellence in execution and client service. We are well positioned to grow in Canada by building a globally integrated client experience while improving efficiency.

Capital Markets is the premier Canadian investment bank with select global reach. We are successfully extending our lead and capturing greater market share in Canada by deepening relationships through strategically lending more to our clients and expanding our opportunities to offer multiple products, while carefully managing costs.

Outside Canada, we operate in areas where we can leverage our leading Canadian franchises to grow profitably.

Wealth Management is a leading wealth manager globally, with growing asset management. While our outlook has been tempered by uncertain markets and low interest rates, we are well positioned relative to peers to benefit when markets recover. Where global competitors face capital challenges, we are stepping in to serve their clients and hire the best talent. We intend to grow our global asset management business both organically and through strategic acquisitions, and our wealth business overall continues to acquire high net worth and ultra-high net worth clients through strong relationship management, world-class service and advice and the RBC reputation for safety and soundness.

Caribbean Banking operates the second-largest bank in the English Caribbean. Our results continue to reflect weak economic conditions in the region. However, we believe that this remains an attractive region for RBC and are confident that our strong underlying competitive position and recent investments to improve our operating efficiency will deliver solid upside when market conditions improve.

Investor & Treasury Services is well positioned for client growth outside Canada. Increasingly, institutional investors around the globe are looking for providers to keep their assets safe, maximize their liquidity, and handle their settlement and reporting needs. With our strength and stability, we are developing our global presence serving a premier list of financial institutions, sovereign wealth funds, insurance companies, asset managers, hedge funds and pension funds.

77%

of earnings from retail businesses⁽¹⁾

(1) Amounts represent continuing operations and exclude Corporate Support

OUR FINANCIAL OBJECTIVES

Our focus is to maximize Total Shareholder Returns (TSR) through the achievement of top quartile performance over the medium term (3-5 years), which we believe reflects a longer term view of strong and consistent financial performance.

| | 2012 RESULTS | | ACHIEVED |
|--|-----------------------|--------------|----------|
| | Continuing operations | Consolidated | |
| › Diluted EPS Growth of 7%+ | 9% | 18% | ✓ |
| › ROE of 18%+ | 19.5% | 19.3% | ✓ |
| › Strong Capital Ratios (Tier 1 capital ⁽¹⁾ , common equity Tier 1 ⁽¹⁾) | n.a. | 13.1%, 10.5% | ✓ |
| › Dividend Payout Ratio 40% – 50% | 45% | 46% | ✓ |

Measuring progress against our medium-term TSR objective

(1) Basel II

Capital Markets has significantly advanced its global position to be a top 10 investment bank and is gaining market share in traditional investment banking businesses faster than any bank in the world. The U.S. is our second home market – we've increased our market share there significantly – and this year our U.S. revenue exceeded our Canadian revenue. In the U.K., Europe and Asia, we are winning business that was once the domain of the largest global bulge bracket dealers as many global competitors retrench. Over the last several years we shifted the balance from trading to more lending and traditional investment banking activities and moved aggressively to reduce risk and eliminate complex assets from the balance sheet. Capital Markets has emerged as one of the strongest, safest and most profitable investment banks globally. We have built top teams, effectively deployed our balance sheet, and made a name for ourselves in advice, execution and being there for our clients in difficult times. We believe these strengths position us well for continued growth.

United by our vision and values

The strength of RBC comes from our 80,000 employees in 51 countries around the world who are united by our vision of “always earning the right to be our clients' first choice” and by our shared core values.

Our values of service, teamwork, responsibility, diversity and integrity set the tone for our culture. They serve to unify us across geographies and businesses, enable collaboration and guide our behaviour and decisions. Our outstanding level of employee engagement at RBC exceeds benchmarks and is driven by how our employees live our vision and values every day. We are proud that our culture is an important aspect of both retaining employees and attracting new talent.

We are committed to offering a workplace where employees can achieve their full potential and feel proud to be part of RBC. Investing in our people, ensuring their skills evolve with the needs of our business, acting on the value of diversity and inclusion – we view all of this as key to future growth. I am gratified to see across many indicators and measures that RBC remains an employer of choice.

Good corporate citizenship is also an important principle throughout RBC, and we have made a great deal of progress in working with organizations around the world to make our communities a better place to live and thrive. Our areas of focus include protecting the environment, respecting diversity, giving back to communities, helping kids flourish, promoting sports and supporting the arts. In 2012, we contributed more than \$95 million in donations and sponsorships. And I'm particularly proud of the many hours of volunteer work and financial contributions by RBC employees to support a wide range of important causes.

Looking ahead

While 2013 will bring industry and economic challenges, I am confident that RBC will continue to deliver value for our clients, shareholders, employees and communities. We have the right strategy, the right values and the right people.

Thank you to our employees for their continued commitment to putting our clients first, and to our 15 million clients for relying on us to help them achieve their goals.

And to our shareholders, we will continue to deliver growth and build value to earn your continued support in the years ahead.



Gordon M. Nixon
President and Chief Executive Officer

MESSAGE FROM THE CHAIRMAN

Central to our role as directors is our responsibility to ensure that RBC has the right strategy, risk management and talent to succeed and deliver long-term value. Your board has spent a lot of time with management reviewing strategic plans aimed at achieving our goals: to be the undisputed leader in financial services in Canada, a premier provider of capital markets and wealth management solutions globally, and a leading provider of select financial services in targeted markets. The results this year once again demonstrate that this strategy is working.

The bank's model, diversified across business segments, geographies and customers, is the foundation of its long-term growth. Over the years, RBC has delivered growth in both its earnings and dividend, which are key drivers of shareholder value. Solid earnings have allowed RBC to invest in the business to drive future gains, while maintaining a strong capital position and returning capital to shareholders. Between May 2011 and August 2012, we announced three increases to our dividend, amounting to a cumulative increase of 20 per cent, and in October we announced a share buyback program for 2013. The board is committed to managing the bank's capital to continue to build our business and reward shareholders.

To drive growth and a strong return on equity, key contributors to the bank's premium valuation, RBC made significant progress this year in executing on our strategic priorities. Hallmarks of this progress in 2012 included the acquisition of the other half of our investor services business, which facilitated realignment of our business segments to promote growth in the institutional market, the continued gains in market share across our businesses in Canada and globally and our continued success in attracting and retaining top talent.

Our strategy is shaped by a measured appetite for risk, clearly defining the amount and type of risk RBC will accept in the pursuit of business objectives. The board is highly engaged in setting this risk appetite and monitoring the organization's risk profile relative to that appetite. As we examine opportunities, your board is committed to maintaining the right balance between risk and reward to drive long-term value.

The board recognizes that the strong reputation and brand of RBC are also founded on a longstanding commitment to leading corporate citizenship. We're proud of the strong corporate values and integrity of RBC, and our contributions to communities, the environment and standards for progressive workplaces. We continue to scrutinize the structures and processes of RBC, with strong attention paid to assessing behaviours and culture as key elements of strong governance.

We are pleased to welcome two new directors. Following 20 years as CEO of Suncor, Rick George brings a wealth of business expertise and international experience to the board. David Denison brings financial strength, having served as head of the Canada Pension Plan Investment Board, and a special perspective as past Chair of the Canadian Coalition for Good Governance.

The Board of Directors is confident that RBC has the right people in place to build on its success. I'd like to thank our management team and the 80,000 employees whose talent and engagement is exemplary. You have demonstrated that RBC has the right strategy, culture and people to win business, deliver growth and create value.

On behalf of the Board of Directors,



David P. O'Brien
Chairman of the Board



› For more information on our governance policies, please visit:
rbc.com/governance