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GORDON M. NIXON, PRESIDENT & CEO

We reported record results in the third quarter with earnings of over $2.2 billion, an increase of 73% compared to last year. Excluding certain favourable items this quarter, we had earnings of $2 billion, which again were very strong, driven by exceptional growth in our Canadian retail franchise as well as strong Capital Markets and Insurance results. We also had record results year to date with earnings of $5.7 billion, and based on this performance we expect to meet our medium-term financial objectives in 2012. These results clearly demonstrate the earnings power of RBC and the strength of our diversified business model, with the right mix of retail and wholesale as highlighted on slide 6. I am very pleased to report that today we announced a $0.03 or 5% increase to our dividend, bringing the quarterly dividend to $0.60 a share. This is our third increase in the past 15 months.
As shown on slide 7, our capital ratios remained strong. Our Tier 1 capital ratio stands at 13%, reflecting solid retained earnings growth and risk weighted asset management, offset somewhat by the impact of our acquisition of the remaining 50% stake in RBC Dexia, which we are very excited about, and we closed at the end of the quarter. As we noted in Q2, based on our current interpretation of the rules, which have yet to be finalized, we already meet or exceed the Basel III capital requirements that become effective in the first quarter of 2013. Currently our estimated Basel III pro forma Tier 1 Common equity ratio is 8.3%.

Turning to the performance of our business segments. Overall, we are extremely pleased with the strong momentum in Canadian Banking, and are also proud that these results were achieved while simultaneously reaching new heights in customer loyalty measures. Canadian Banking had a record quarter with earnings of over $1 billion, accounting for 50% of our total earnings. Even in a slowing environment, volume growth was strong at 8% as we continued to leverage our size and scale to take a disproportionate share of industry growth and profitably gain market share. What’s more, we achieved these results while demonstrating relative margin stability. As part of our enterprise wide cost management program, Canadian Banking is focused on eliminating costs and re-investing for the future. This quarter, Canadian Banking delivered strong operating leverage ahead of schedule and an efficiency ratio of under 45%.

Moving on to Wealth Management. As you know, we have an ambitious growth objective for this segment, and while we are behind schedule as a result of uncertain markets and low interest rates, we are well positioned and have good leverage to benefit from market stability. Notwithstanding the current environment, which has improved over the last month or so, we continue to extend our #1 position in Canada in both wealth and asset management and are investing to strengthen our competitive position outside of our domestic market during a period of challenging industry conditions. We are confident that we are investing in a foundation that will provide strong future growth, particularly as markets begin to stabilize and client activity increases.

Turning to Insurance, we had another strong quarter. This business continues to make a consistent contribution and complements our overall retail offering by providing innovative, client-focused solutions through our multi-channel distribution network. We continue to strengthen our business for future growth by improving our product mix, pricing, distribution, and claims management processes. For example, this quarter, we made changes to our proprietary distribution channel which we expect will drive greater efficiencies over the long term.

Moving to International Banking. While disappointed by the performance of Caribbean banking, which continues to reflect the prolonged weak economic conditions in the region, we believe that this remains an attractive region for RBC, and the strategic investments we have made in recent years position us well for long term growth. Our market position and margins are strong, but we have been impacted by reduced demand for loans and the credit cycle which Morten will discuss. In the near term, we are aggressively managing the business and we believe our performance will improve significantly in 2013.

In RBC Investor Services, our performance this year has been relatively solid; however, our results have been impacted by the accounting treatment for the acquisition, as I believe you are all aware. You may recall we were required from an accounting perspective to take a write-down on our current investment in RBC Dexia to reflect the purchase price, the majority of which we took last quarter, with the remainder recorded this quarter at the time of close. As a result, despite Investor Services being profitable, no earnings were recorded in our third quarter results. Looking ahead, we believe Investor Services is well positioned as a top 10 global custodian in an industry with solid long-term fundamentals, and while this business is impacted by market and interest rate pressures, similar to Wealth Management, it provides good leverage to market stability.
Furthermore, we believe we can leverage our reputation, brand and financial strength to win additional business, improve the earnings trajectory and drive long-term growth.

In Capital Markets, we had another solid quarter of earnings, reflecting the successful repositioning of the business which we have been discussing over the past few years. As we have highlighted, we have aggressively reduced risk and eliminated complex assets from the balance sheet. We have reduced trading inventory in response to global uncertainty and narrowed our focus and breadth of trading products. We have grown our lending to corporate clients significantly, especially in the U.S. and that has supported substantial growth in our investment banking as well as loan revenues, and we have continued to execute our focused strategy in our key geographic regions without expanding our footprint.

Looking specifically at Q3, our corporate and investment banking businesses had solid results, demonstrating our strength in Canada and the success of our build out in the U.S. and the U.K. In Canada, we are acting as a financial advisor to Nexen Inc. on the second-largest Canadian energy M&A transaction in history and the largest foreign energy acquisition in Canadian history. In the U.S., we had a very active quarter and were involved in multiple capacities on a number of key mandates. For example, we acted as lead advisor in Apollo’s $7 billion acquisition of El Paso’s exploration and production company and also acted as joint bookrunner on the financing. Another notable transaction was Penn Virginia Resource Partners’ acquisition of Chief Gathering, where RBC was the M&A advisor, equity placement agent and lead arranger on the credit facility. Our strength in the U.S. was most evident in the latest Dealogic league tables. Measured by fee revenue, RBC ranked as the 10th largest global investment bank for the first half of 2012, and we have jumped seven spots to number 10 in the U.S. Loans Bookrunner ranking, increasing our market share to 2.4%, up from 1.1% in 2011. Within the Americas ranking overall, our market share has increased over the past two years to a record 3.9%, up from 2.4%, with more than half of this increase coming from the U.S.

Moving to Europe, RBC acted as financial advisor to a consortium that acquired Open Grid Europe from a German listed utility for €3.2 billion. We were also a lead arranger on this deal, providing the supporting credit facilities. This transaction represents our largest U.K. cross-border M&A transaction involving a German target, and is a testament to the successful build out of our investment banking business in the U.K., even in the face of challenging markets.

Although trading was down on a sequential basis, it was a solid quarter, reflecting the success we have had in repositioning this business, particularly in fixed income, and our focus on the customer. It is also worth highlighting that we generated solid trading revenue from a base of trading securities which is approximately 25% lower than last year and our VaR is down close to 50% from its peak in Q3 of 2011.

Looking ahead, while market conditions remain uncertain, RBC has good momentum, a strong competitive position in our core markets, and a solid pipeline. To conclude, our record results and dividend increase this quarter continue to demonstrate our earnings power. Our long-term diversified business model of retail, wholesale and other businesses, combined with our geographic presence, in our view, provides the right mix of earnings and risk diversification which continues to translate into strong earnings. Going forward, we believe RBC is well positioned to continue extending our lead in Canada and building strong client relationships in select U.S. and international markets while delivering long-term growth to our shareholders. With that, I’ll turn it to Morten.

MORTEN FRIIS, CHIEF RISK OFFICER

Thank you Gord. Starting with credit, on slide 10, overall, credit quality improved compared to the prior quarter. Provision for Credit Losses on impaired loans of $325 million declined $23 million,
or 5 basis points from the prior quarter to 34 basis points. This decrease was driven by lower provisions, primarily in Canadian Banking, but also in Capital Markets, partially offset by higher provisions in the Caribbean due to the ongoing difficult economic conditions in that market. With respect to the Caribbean, we continue to face a challenging credit environment given the region’s dependence on tourism both from the U.S. and Europe. These challenges are likely to persist in the near-term until we see improvements in the economic environment in the region. With respect to gross impaired loans, new formations have improved significantly. At $261 million this is the lowest level of new impaired loans since the third quarter of 2006. Gross impaired loans were $242 million lower than the prior quarter, largely due to lower impaired loans in our residential mortgage portfolio, as well as in our business lending portfolios in Canadian Banking and Capital Markets.

Turning to our Canadian retail portfolio on slide 11, overall loss rates improved this quarter to 30 basis points of PCL, down from 34 basis points last quarter. Our mortgage portfolio continues to perform well, with provisions on residential mortgages remaining low at 2 basis points, consistent with our historic performance. We continue to actively monitor and stress test this portfolio and remain confident in its ability to withstand significant movements in the key underlying economic parameters.

Turning to slide 12 on our European exposure. Compared to last quarter, our net exposure was up approximately $4 billion or 10%, reflecting the acquisition of the remaining 50% stake in RBC Dexia, which added approximately $6 billion, primarily lower-risk investment portfolio assets as deployment of funds from client deposits. This increase was partially offset by our continued risk management and balance sheet optimization efforts, including a further reduction of holdings of some European securities in the Investor Services business. We remain comfortable with our exposures and continue to transact in a prudent manner with well-rated counterparties predominantly in larger European economies.

Turning to market risk, average Management VaR was $37 million and average Stressed VaR was $60 million, with both remaining stable compared to last quarter. One element of our ongoing risk management activities is the active management and further reduction in trading inventory primarily in fixed income. As shown on slide 13, inventories in the fixed income business have decreased by 25% over the past year, as we have narrowed our focus and breadth of trading products and shifted our focus to more traditional investment banking activities. We had a total of 8 days with net trading losses during the quarter, with no losses exceeding VaR. With that, I will turn the presentation over to Janice.

Thanks Morten and good morning. Turning to slide 15, as Gord mentioned, we had a record third quarter with earnings of over $2.2 billion. Our results included three items of note outlined on slide 22, which had a favourable net impact of $262 million after-tax. Excluding these items, net income was $2 billion, up $295 million or 18% from last year, and 12% from last quarter. These results were driven primarily by record earnings in Canadian Banking and strong performances in Capital Markets and Insurance.

Turning to our business segments starting on slide 16. Canadian Banking had record earnings of over $1.1 billion. Excluding the favourable mortgage prepayment interest adjustment of $92 million after-tax, earnings were still a record at just over $1 billion, up $147 million or 17% over last year, primarily reflecting strong volume growth of 8%. On the same basis, net income was up $98 million or 10% compared to the prior quarter, primarily due to the positive impact of seasonal factors as well as solid volume growth across all businesses. As shown on slide 16, Canadian Banking delivered strong adjusted operating leverage of 3.5% this quarter. Looking ahead, while
we expect to deliver positive operating leverage in the fourth quarter it will be at a lower level than what we achieved this quarter given the current low interest rate environment and the timing of initiative spend.

In keeping with our medium-term efficiency objective, we continued to drive our efficiency ratio lower. This quarter our adjusted efficiency ratio was 44.8%, an improvement of 150 basis points from last year, reflecting progress on a number of initiatives. For example, our staff levels remained flat over last year despite adding 27 new branches and extending branch hours. In regards to margins, notwithstanding the low interest rate environment, we continued to achieve relative stability.

On an adjusted basis, net interest margin was relatively flat from last year and increased 2 basis points over last quarter. This sequential increase over last quarter reflected lower mortgage breakage costs and a favourable change in our product mix. Our margin performance reflects our strict pricing discipline as well as our ability to grow volumes at a premium to the market and profitably gain share. Going forward, we expect margins to reflect the competitive landscape and prolonged low interest rate environment. I would note that the change in our estimation of mortgage prepayment interest is not expected to have a material impact on margins in future quarters.

Turning to Wealth Management on slide 17, in Q3 we earned $156 million. Certain regulatory and legal matters unfavourably impacted our results this quarter by $21 million after-tax. Excluding these items, net income was down $15 million or 8% from last year, largely due to lower transaction volumes reflecting continued investor uncertainty. On the same basis, earnings were down $35 million or 17% over last quarter, largely due to the decrease in the fair value of our U.S. stock-based compensation plan and lower transaction volumes. As Gord noted earlier, our Wealth Management results continue to reflect challenging market conditions and investments we are making for the long-term.

Moving to Insurance on slide 18, net income of $179 million was up $38 million or 27% compared to last year, driven by lower claims cost in our Canadian insurance products, and a favourable adjustment of $24 million after-tax related to changes we made in the quarter to our proprietary distribution channel. Compared to last quarter, earnings were up $28 million or 19%, largely due to the favourable adjustment.

International Banking results this quarter reflect the $11 million after-tax loss related to the RBC Dexia acquisition. Compared to last year, this quarter also had higher PCL in Caribbean Banking, lower securities brokerage commissions in RBC Investor Services resulting from weak market conditions in Europe, and higher staff costs. Compared to the second quarter, which included the $202 million after-tax loss related to the RBC Dexia acquisition, we also had higher PCL in Caribbean Banking, which Morten discussed.

Turning to Capital Markets on slide 20, we had a strong quarter. Net income was $486 million, up $227 million over last year, due to higher fixed income trading results reflecting improved market conditions, and higher corporate and investment banking results driven by strong client growth in our lending and loan syndication businesses. Compared to last quarter, earnings were up $37 million or 8%, due to strength in our corporate and investment banking businesses. This quarter, strong growth in our lending and loan syndication businesses largely in the U.S. and higher M&A activity more than offset lower equity trading and equity origination. To wrap up, we are very pleased with our record performance this quarter which demonstrates the strength of our diversified business model and earnings power of the organization.