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GORDON M. NIXON, PRESIDENT & CEO

In 2011, we earned a record 6.7 billion dollars from continuing operations which was, up 16 percent over last year, generating a strong return on equity of 18 percent. We had record earnings in Canadian Banking, Wealth Management and in Insurance.

This quarter we earned 1.6 billion dollars, up 43 percent from last year, or 19 percent on a continuing operations basis, driven by record earnings in Canadian Banking and Insurance and good results in corporate and investment banking.

Within the context of a challenging environment, we are very pleased with our 2011 operating results which, notwithstanding a tumultuous market, exceeded our plan for the year.

While we did have a goodwill charge in the third quarter, as reflected in our consolidated results, we believe our decision to sell RBC Bank in the United States was the right one for our shareholders and will improve results as we can redeploy capital to generate better returns.
It should be noted that under IFRS, which we will begin reporting starting this quarter, there will not be any 2011 goodwill charge to earnings. This will be visible when we release our 2011 comparative financials in January which will show consolidated earnings significantly higher under IFRS. Janice will elaborate more on IFRS in her remarks.

Moving to slide 5, within the context of unstable economic conditions in the United States and Europe, our objective is to ensure that RBC is well positioned to grow earnings and take advantage of global dislocation, while adhering to our strict risk management practices and maintaining a strong capital position.

To that end, over the past year, we improved our capital position and we strengthened our balance sheet by disposing of higher risk and lower return businesses that did not meet our financial risk adjusted return hurdles. At the same time, we sustained momentum across our businesses and reinvested for future growth.

Our capital position remains strong, with a Tier 1 capital ratio of 13.3 percent and Tier 1 Common ratio of 10.6 percent at the end of the year.

In 2011 we also undertook a new cost management program to balance the investments required to strengthen our competitive position with the need to decrease the growth rate of our cost base, and Janice will expand more on this in her remarks.

With respect to risk management, we have always taken a disciplined approach to the clients and counterparties we deal with, and this holds true for our dealings across Europe.

We are a global investment bank and global wealth manager, and through our client-driven businesses we have some European exposure. I will note that our exposure to Europe represents less than 10 percent of our total exposures.

As part of our business, we transact with European financial institutions and corporations, and through our Primary Dealer activities, we participate in auctions of government debt and act as a market maker to provide liquidity to our clients.

The majority of our exposure is in large, and well-rated countries, primarily the U.K., Germany and France and our exposure to peripheral European countries is minimal and is mainly to investment grade corporates.

There is no question we continue to follow the events in Europe very closely and stress test against various outcomes.

However, we are very comfortable with our exposures and remain committed to serving our global clients in these markets. In fact, given the strength of RBC, we view the current dislocation as an opportunity to improve client penetration and enhance our risk adjusted returns. We have provided very comprehensive disclosure on our exposures throughout Europe and Morten will expand on these in his remarks.

Turning to our business performance for 2011 on slide 6. Canadian Banking had a record year with earnings of 3.5 billion dollars, just over half of RBC’s total net income.

These record results were driven by strong revenue growth across all Canadian retail businesses reflecting solid volume growth which far exceeded our goal of growing volumes at a 25 percent premium to the market.

We continue to access more customers through the build out of our multi-channel strategy, including branch, mobile and online banking, and our superior cross-sell ability enables us to deepen our client relationships while profitably growing the business.

We are seeing success in our commercial loan book, and our initiatives to refocus this business by leveraging our industry-specific expertise to win new business and grow market share are paying off.
In the fourth quarter, we saw commercial loan growth of 8 percent from the prior year, the fastest rate of growth since 2008. With strong momentum in this higher margin business, we believe we are well positioned to benefit from market trends that point to slowing consumer demand and a shift to more commercial activity. Our scale gives us enormous potential to drive further growth and improve efficiencies.

Wealth Management had a record year with over 20 percent earnings growth. These results were driven by higher average fee-based client assets and increased transaction activity reflecting improved market conditions in the early part of the year.

We continued to invest and strengthen our business because we see tremendous opportunity over the long-term, despite the current challenging conditions, including client uncertainty and ongoing pressure from low interest rates.

As many of you heard at our recent Investor Day, Wealth Management is an important focus for RBC. We have a strong foundation for growth and believe we are well positioned to benefit when market and economic conditions improve.

Additionally, we are capitalizing on the current dislocation in the market to attract new clients with our recent global branding strategy which highlights RBC’s strength, stability and global reach.

Insurance also had a record year, earning over 600 million dollars. We continued to experience solid volume growth across all of our insurance businesses, and benefited from lower claims costs in the year.

Our insurance business provides innovative and valuable insurance solutions to clients through our unique distribution strategy and continues to be a key complement to RBC’s overall Canadian retail product offering.

Turning to International Banking, our results in the Caribbean continue to reflect some weakness in the tourism industry and local economies, but notwithstanding these pressures, we believe this is an attractive business with healthy margins over the long-term. We have a strong franchise, so we are taking steps to strengthen the business for the future, including undergoing an extensive reorganization and branding initiative.

Turning to RBC Dexia, it is important to note that the joint venture has a strong financial position and is well capitalized independent from its shareholders. Even though the business is operating in a challenging environment driven by low interest rates and volatile equity markets it continues to execute its strategy effectively.

We like this business and we believe it is well positioned to benefit from favourable demographic trends supporting long-term global growth in wealth management. With respect to rumours in the market, we are assessing our options and have had ongoing discussions with Dexia, but we cannot comment any further at this point.

Turning to Capital Markets, within the context of extremely challenging market conditions, we performed relatively well. I believe our results demonstrate the benefit of our diversified business mix, and the increasing proportion of fee-based revenue.

In our corporate and investment banking business, revenue was up 20 percent over last year, demonstrating that growth initiatives in recent years – primarily in the U.S. and more recently in Europe – are paying off. A key element of this strategy has been successfully extending our loan book to develop new client relationships and deepen existing ones.

Our headcount was up this year, mainly reflecting a number of high quality hires on the investment banking side, and we will continue to strengthen our franchise with top talent, especially in Europe, to round out our client coverage model.
On the trading side, our global fixed income business continued to be impacted by challenging market conditions. We did however take steps to reduce risk and scale the business in response to the contraction in the market and we are already seeing the benefits in this business from these actions.

When there is more clarity around European sovereign debt issues and the state of the global economy, we believe improved market conditions will result in a more stable trading environment. We also anticipate a more favourable competitive environment as some global and European banks have reduced their commitment to European fixed income markets.

In the interim, and in response to the structural changes in the markets, we are continuing to aggressively manage our balance sheet to optimize capital and drive efficiencies across the capital markets businesses.

Turning to slide 7, while I am disappointed with our current share price, on a relative basis compared to our global peers, we have delivered top quartile shareholder returns over the last five years.

It is important to recognize that we have continued to deliver strong earnings over that period, (as a point of reference, over the past five years, our earnings from continuing operations are up over 40 percent and EPS are up over 25 percent), but unfortunately the banking sector has been re-priced by the marketplace, a trend that at some point should reverse itself.

Having said that, we have also lost our premium valuation relative to the other Canadian banks, largely due to the slow down in earnings of our Capital Markets business over the last year. The strong performance and growth of this business resulted in a premium valuation during the 2008 to 2010 period.

I would emphasize however that over the long-term, we continue to believe that returns in Capital Markets will be strong relative to other areas of financial services, and in line with our organizational return objectives.

We remain committed to our goal of maintaining a diversified business mix of generating 75% from retail and 25 percent of earnings from our wholesale business through the cycle. We believe it is the right mix not only from an earnings perspective but also from a risk diversification perspective.

In closing, 2011 was a record year for RBC. Notwithstanding the tremendous global uncertainty, especially in the latter half of the year, we executed well and exceeded our financial operating goals. Looking into 2012, we are confident about RBC’s financial and competitive position.

We expect global capital markets to remain volatile as a result of European sovereign debt issues, coupled with the U.S. fiscal imbalance and political indecision, but on a relative basis we believe RBC is well positioned to manage through this uncertain environment.

With respect to regulatory developments such as the new Basel III requirements, as we have mentioned before, based on our current interpretations we already meet the 2013 capital requirements today.

In relation to other reforms, like the Volcker Rule, the rules are far from finalized, and there are many hurdles that have to be overcome from a political perspective. However, we are closely monitoring these developments and working to ensure the business impacts, if any, are minimized.

I believe our leading market positions, diversified business mix and the prudent focus on managing risk and costs that drove our results in 2011 will continue to be key advantages going forward.

Further, our capital strength provides a great advantage over global competitors that face significant pressure to shrink their balance sheets and change their business strategies in response to regulatory changes.
Starting with credit, on slide 10, overall, credit quality improved compared to the prior year and prior quarter. Specific provisions for credit losses from continuing operations of 31 basis points or 235 million dollars were down 40 million dollars from the prior quarter, largely driven by lower provisions in our Canadian and Caribbean commercial portfolios and fewer write-offs in our Canadian card portfolio.

Total PCL for discontinued operations of 29 million dollars improved 63 million dollars compared to the prior quarter due to lower provisions in the commercial loan portfolio.

Gross impaired loans from continuing operations at 78 basis points are flat to last quarter reflecting improvements across all business platforms except for International Banking where we had a small increase to the impaired loans in our Caribbean wholesale portfolio.

Turning to market risk, Management VaR was down 3 million dollars quarter over quarter reflecting strategic risk reductions in the fixed income trading portfolios.

During the quarter, we had a total of 21 days with net trading losses reflecting challenging conditions in particular in August and early September with improved stability over the latter part of the quarter. We saw higher daily trading revenue volatility as the market reacted to the concerns over the European sovereign debt crisis and the U.S. credit rating downgrade. The one day with a loss in excess of VaR reflected the U.S. long-term sovereign credit rating downgrade in August.

Moving on to Europe. Our net exposure to Europe is 43 billion dollars and we have provided extensive disclosure on the details on pages 46 and 47 of the Annual Report.

The net exposure number differs from the gross credit risk exposure reported under the Basel II Pillar III in that undrawn commitments, potential future credit exposure on OTC derivatives have been excluded and exposures to repo-style transactions and OTC derivatives have been reduced by the amount of collateral held. On slide 11, the gross drawn exposure of 37 billion dollars provides the exposure calculated on a comparable basis to the gross funded exposures reported by a number of U.S. banks.

The net European exposure of 43 billion dollars includes 11.8 billion dollars of trading-related securities and also takes into account 5.5 billion dollars of collateral held against derivatives, primarily in the form of cash and cash-equivalents. Our exposure also reflects approximately 1 billion dollars of credit default swaps which is modest, reflecting the fact that we do not make extensive use these instruments for hedging purposes.

From a country perspective, 60 percent of our exposure is to the U.K., Germany and France and we have 1.4 billion or 3% of our exposure to peripheral European countries.

Our exposures relate to client driven activities in Capital Markets and, to a smaller extent, Wealth Management. The activities include: loans to strong corporate and individual credits, trading securities related to client market-making activities, collateralized repo-style transactions; and derivatives, which are well-collateralized and marked to market. Exposures also relate to securities supporting our funding and liquidity management.

We continue to monitor market developments and have taken action where we deemed prudent. We have had a general reduction in the level of market risk and the size of our trading inventories to reflect both active decisions to reduce risk and the general contraction in the market.

We are comfortable with our current exposures and continue to transact in a prudent manner with well-rated counterparties. For our trading businesses transactions are typically done under master netting agreements or on a collateralized basis.
Turning to Slide 13. As Gord mentioned, fourth quarter earnings were up 43 percent over last year, up 19 percent on a continuing operations basis, driven by record earnings in Canadian Banking and Insurance.

Moving on to the performance of our segments on slide 14. Canadian Banking earned 904 million dollars this quarter, up 139 million dollars, or 18 percent from the prior year, and 6 percent from last quarter. These results were driven by continued solid volume growth in home equity products, personal and business deposits, business loans, and lower provisions for credit losses.

Net interest margin remained relatively stable compared to last year and the prior quarter, as competitive pricing was largely offset by a favourable shift in our product mix.

Our efficiency ratio for the year was 47.8 percent. Excluding higher pension costs, our efficiency ratio was 46.2 percent – an improvement of 110 basis points over last year. On the same basis, our operating leverage for the year was 2.4 percent, up 130 basis points over last year. We continue to strive towards an efficiency ratio in the low 40s and under IFRS we expect to achieve our target sooner.

Wealth Management reported net income of 189 million dollars this quarter. Excluding certain accounting adjustments in the current quarter, which are disclosed in our press release, net income was 157 million dollars, down 10 percent from last year, and 12 percent from the prior quarter, mainly due to lower transaction volumes reflecting challenging market conditions and reduced investor confidence.

Moving to Insurance, we had net income of 196 million dollars, up 58 percent from last year and 38 percent from last quarter, reflecting strong volume growth across most products, including 26 million dollars before and after-tax related to the timing of a U.K. annuity reinsurance contract, and lower claims costs.

International Banking earned 12 million dollars this quarter, compared to a net loss of 7 million dollars last year, reflecting lower provisions for credit losses in Caribbean banking, improved results at RBC Dexia and net favourable stamp tax and accounting adjustments. Compared to the prior quarter, earnings were down 19 million dollars mainly due to increased costs, and higher seasonal revenue in the prior quarter at RBC Dexia.

Capital Markets net income was 278 million dollars, down 95 million dollars or 25 percent compared to last year, largely reflecting significantly lower fixed income trading results which were partially offset by continued growth in corporate and investment banking.

Compared to last quarter, earnings were flat, as fixed income results were impacted by challenging market conditions, and corporate and investment banking was down from a strong prior quarter reflecting weaker issuance and M&A activity.

Turning to IFRS, as Gord mentioned, we will be pre-releasing our 2011 comparatives in January. For now, let me highlight some general impacts of IFRS. We also have provided a more detailed summary on slides 15 and 16 of the impacts upon transition, as well as the ongoing impacts to earnings.

From a net income perspective, 2011 consolidated earnings under Canadian GAAP were 4.9 billion dollars, which includes the goodwill charge related to the sale of RBC Bank. Under IFRS, the goodwill associated with RBC Bank has been written down through a transition adjustment.

Our 2011 earnings from continuing operations are approximately 6.9 billion dollars under IFRS, or 3 percent higher than Canadian GAAP earnings of 6.7 billion, primarily as a result of our election related to employee benefits.
Also, our shareholders’ equity is estimated to decrease on transition by 3.6 billion dollars, or approximately 9 per cent. Going forward, we have revised our medium-term ROE target upward to 18 percent plus, to reflect this change.

From a Tier 1 Capital perspective, the transition impact will be minimized as it will be phased-in over a five-quarter period beginning in the first quarter of 2012 and our quarterly earnings over this period could also serve to offset the impact.

In addition to IFRS, I want to highlight two items that will impact our capital in Q1 2012. The first item relates to changes to the trading book capital rules and capital requirements for securitization transactions under Basel 2.5 which many of you are aware of. Based on our current estimate, the resulting impact to risk weighted assets will be an increase of approximately $14 billion dollars. The second item relates to the capital deduction for investments in insurance, which will move to a 50% Tier 1, 50% Tier 2 deduction from a 100% Tier 2 deduction today, as prescribed by Basel II. As a result, we expect these two changes combined will decrease our Tier 1 capital ratio by approximately 120 basis points in Q1.

Before we open the call for Q&A, I’d like to make a few remarks on cost management. As Gord mentioned, expenses are a key area of focus and earlier this fall we announced a new cost program. To provide some context, let me explain how our cost program is different from programs we’ve undertaken in the past.

With Client First in 2004, we focused on front office productivity and flattening our organizational structure. In 2009, we took a bottom-up approach within individual businesses and platforms. With our new program, the goal is to reduce our expense growth both at the enterprise and segment level.

We’ve had a large build up in investment across our businesses so the whole focus is getting our run rate of expenses down where we’ve always targeted an operating leverage of about 3 percent. There will be some fluctuations on a quarterly basis, but that is our intention over the next 3 to 5 years.

We believe this program will provide the necessary levers to dynamically manage the trajectory of expense growth against revenue growth, while making prudent, selective choices that balance the investments needed to foster future growth.