



Always  
earning the right  
to be our clients'  
first choice

## Our vision

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

## Values

- Excellent service to clients and each other
- Working together to succeed
- Personal responsibility for high performance
- Diversity for growth and innovation
- Trust through integrity in everything we do

## Strategic goals

- To be the undisputed leader in the financial services industry in Canada
- To build on our strengths in banking, wealth management and capital markets in the United States
- To be a premier provider of selected global financial services

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This annual report contains forward-looking statements within the meaning of certain securities laws, including the “safe harbour” provisions of the *Securities Act* (Ontario) and the *United States Private Securities Litigation Reform Act* of 1995. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates, and intentions expressed in such forward-looking statements. Additional information about these factors can be found under “Caution regarding forward-looking statements” on page 29.



## RBC corporate profile

Royal Bank of Canada (TSX, NYSE: RY), and its subsidiaries operate under the master brand name of RBC Financial Group, and may be referred to in this text as RBC. We are Canada's largest bank as measured by assets and market capitalization and one of North America's leading diversified financial services companies. We provide personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. Our corporate support team enables business growth with expert professional advice and state of the art processes and technology. We employ approximately 69,000 people who serve more than 14 million personal, business and public sector clients throughout offices in North America and some 30 countries around the world.

In Canada, we have strong market positions in all of our businesses. In personal and business banking, we rank first or second in most retail products. In wealth management, we have the leading full-service brokerage operation (by assets), the top mutual fund provider among Canadian banks and the second-largest self-directed broker (by assets). We are the largest Canadian bank-owned insurer, one of the top 10 Canadian life insurance producers, and a leader in travel insurance, creditor products and individual disability insurance. In corporate and investment banking, we continue to be the top-ranked securities underwriter and the leading mergers and acquisitions advisor. We also have by far the largest Canadian custody operations (by assets under administration). Our domestic delivery network includes 1,104 branches and 3,906 automated banking machines, 437 investment retirement planners, 1,063 financial planners, 371 insurance agents and 975 mortgage specialists. Currently, we have 3.5 million online and 2.5 million telephone clients.

In the United States, we provide personal and commercial banking, insurance, full-service brokerage and corporate and investment banking services to about 1.5 million clients through RBC Centura, RBC Builder Finance, RBC Insurance, RBC Liberty Insurance, RBC Dain Rauscher and RBC Capital Markets.

Outside North America, we have a banking network in the Caribbean and a presence in niche markets. In Europe, South America and the Middle East, we provide private banking, international estate planning and wealth management services tailored for high net worth individuals, sophisticated investors and corporate and institutional clients. We also offer investment banking, trading, capital markets, reinsurance, securities custody and trade finance to corporate, institutional and business clients.

In the Asia-Pacific region and Australia, we provide corporate and investment banking, trade finance, correspondent banking, treasury and securities custody services to corporate clients, reinsurance to institutional and business clients and private banking services to individual clients.

## Business profile

The RBC Canadian Personal and Business segment is a premier manufacturer, marketer and distributor of financial products and services, achieving leading market share in most key markets with an extensive distribution network of proprietary, third-party and specialized sales forces and strong client analytics.

## Brands

- RBC Royal Bank
- RBC Investments
- RBC Dominion Securities
- RBC Insurance
- RBC Liberty Insurance

## Strategy

- Optimize our distribution channels.
- Simplify processes and structures.
- Focus on high-return markets.

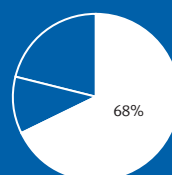
## Key operating highlights

- RBC Asset Management was the industry leader in sales of long-term mutual funds with more than \$6 billion in net sales in 2005.
- Introduction of innovative credit card products like the Starbucks Duetto Visa Card and the RBC Cathay Pacific Visa Platinum Card contributed to growth in our credit card business.
- RBC Insurance opened its first two new concept multi-line insurance outlets located next to RBC Royal Bank branches.

(C\$ millions, except percentage amounts)	Change 2005/2004	2005	2004
Total revenue	12%	\$ 12,550	\$ 11,223
Non-interest expense	4%	\$ 5,872	\$ 5,630
Insurance policyholder benefits, claims and acquisition expense	24%	\$ 2,625	\$ 2,124
Net income	14%	\$ 2,337	\$ 2,052
Return on equity (ROE) (1)	270 bps	27.5%	24.8%
Average loans and acceptances	10%	\$ 150,700	\$ 137,100
Average deposits	4%	\$ 138,800	\$ 133,700
Assets under administration	15%	\$ 180,300	\$ 157,300
Assets under management	21%	\$ 63,400	\$ 52,300
# of branches	6	1,104	1,098

(1) ROE is calculated using month-end balances for the period, and is a non-GAAP financial measure. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section in the Management's Discussion and Analysis.

## Business segment's contribution to 2005 consolidated net income



## RBC U.S. and International Personal and Business

### Business profile

The RBC U.S. and International Personal and Business segment consists of RBC Centura (personal and business banking in the U.S.), Caribbean banking, RBC Dain Rauscher (U.S. wealth management) and Global Private Banking.

### Brands

RBC Centura  
RBC Dain Rauscher  
RBC Builder Finance  
Royal Bank of Canada Global Private Banking  
RBC Royal Bank of Canada

### Strategy

- Leverage the global resources of RBC to develop local solutions for our individual and business clients.
- Focus on businesses, business owners and professionals to build a leading banking position in the Southeast U.S. market.
- Enhance our market position in the Caribbean.
- Deliver a broad range of integrated advisory and balance sheet solutions for our wealth management clients across the U.S. and around the globe.

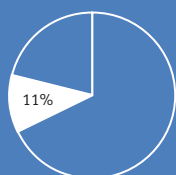
### Key operating highlights

- Improved business performance at RBC Centura by increasing loans and deposits, while reducing expenses.
- Generated strong revenue in the Caribbean reflecting improved sales management processes.
- Increased fee-based assets at RBC Dain Rauscher by 24 per cent.
- Introduced an integrated wealth management model for Global Private Banking high net worth clients.

(C\$ millions, except percentage amounts)	Change 2005/2004	2005	2004
Total revenue	1%	\$ 2,823	\$ 2,786
Non-interest expense	(6)%	\$ 2,226	\$ 2,360
Net income from continuing operations	63%	\$ 395	\$ 242
Return on equity (ROE) <sup>(1)</sup>	580 bps	12.0%	6.2%
Average loans and acceptances	9%	\$ 20,500	\$ 18,800
Assets under administration	.3%	\$ 234,300	\$ 233,700
Assets under management	2%	\$ 42,300	\$ 41,300
# of branches	(2)	315	317

(1) ROE is calculated using month-end balances for the period, and is a non-GAAP financial measure. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section in the Management's Discussion and Analysis.

### Business segment's contribution to 2005 consolidated net income



## RBC Capital Markets

### Business profile

The RBC Capital Markets segment provides a wide range of investment banking, sales and trading, research and related products and services to corporations, governments, large commercial and institutional clients. It is comprised of Global Markets, Global Investment Banking and Equity Markets, Institutional & Investor Services and Other line of business, which consists of National Clients group, Research, and, aggregated under Global Credit, the non-strategic lending portfolio and centralized management associated with the segment's core lending portfolios.

### Brands

RBC Capital Markets

### Strategy

- Advance our leadership in Canada.
- Achieve sustainable leadership in the U.S. mid market.
- Become a leading trader and structurer of converging asset classes.
- Build a top-tier global fixed income bank.

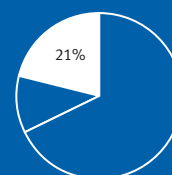
### Key operating highlights

- Strengthened our global distribution and fixed income capabilities through the integration of RBC Dain Rauscher's fixed income operations.
- Continued to build our presence in U.S. investment banking with such landmark transactions as the US\$600 million stock issue for Southwestern Energy Company, the largest secondary financing in the U.S. energy sector this year.
- Announced the creation of a joint venture, RBC Dexia Investor Services, which will rank among the world's top 10 global custodians. This transaction is expected to close in fiscal 2006.

(C\$ millions, except percentage amounts)	Change 2005/2004	2005	2004
Total revenue (teb) <sup>(1)</sup>	3%	\$ 3,984	\$ 3,875
Non-interest expense	15%	\$ 3,257	\$ 2,831
Net income	(9)%	\$ 725	\$ 801
Return on equity (ROE) <sup>(1)</sup>	(160)bps	17.4%	19.0%
Assets under administration	13%	\$ 1,361,100	\$ 1,202,900
Gross underwriting and advisory fees	9%	\$ 1,003	\$ 918

(1) Total revenue on a taxable equivalent basis (teb) and ROE are non-GAAP financial measures. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section in the Management's Discussion and Analysis.

### Business segment's contribution to 2005 consolidated net income



# Financial highlights <sup>(1)</sup>

(C\$ millions, except per share, number and percentage amounts)	Change 2005/2004	2005	2004	2003	2002	2001
<b>Earnings from continuing operations</b>						
Net interest income	6%	\$ 6,770	\$ 6,398	\$ 6,336	\$ 6,773	\$ 6,111
Non-interest income	9	12,445	11,404	10,652	10,319	9,765
Total revenue	8	19,215	17,802	16,988	17,092	15,876
Provision for credit losses	32	455	346	721	1,065	1,119
Insurance policyholder benefits, claims and acquisition expense	24	2,625	2,124	1,696	1,535	1,344
Non-interest expense	5	11,388	10,833	10,165	10,420	9,717
Business realignment charges	n.m.	45	177	-	-	-
Net income from continuing operations	14	3,437	3,023	2,955	2,702	2,307
Net income (loss) from discontinued operations	n.m.	(50)	(220)	13	n.a.	n.a.
<b>Net income</b>	21	<b>3,387</b>	2,803	2,968	2,702	2,307
<b>Return on common equity (ROE) <sup>(2)</sup></b>	240 bps	<b>18.0%</b>	15.6%	16.7%	15.8%	16.4%
<b>Balance sheet data</b>						
Loans (before allowance for loan losses)	11%	191,914	172,560	162,449	167,773	168,381
Assets	10	469,521	426,222	399,847	375,474	358,939
Deposits	13	306,860	270,959	259,145	243,476	233,447
Subordinated debentures	1	8,167	8,116	6,243	6,614	6,513
Common equity	10	19,149	17,372	17,543	17,238	16,141
<b>Capital ratios <sup>(3)</sup></b>						
Tier 1 capital	70 bps	9.6%	8.9%	9.7%	9.3%	8.7%
Total capital	70	13.1%	12.4%	12.8%	12.7%	11.8%
<b>Common share information</b>						
Shares outstanding (in thousands)						
End of year	- %	646,751	644,748	656,021	665,257	674,021
Average basic	(1)	641,717	646,732	662,080	672,571	641,516
Average diluted	-	652,340	655,508	669,016	678,120	647,216
Earnings per share						
Basic	22	\$ 5.22	\$ 4.29	\$ 4.44	\$ 3.96	\$ 3.55
Diluted	21	5.13	4.23	4.39	3.93	3.52
Share price						
High <sup>(4)</sup>	32	86.68	65.90	65.00	58.89	53.25
Low <sup>(4)</sup>	5	60.90	58.04	53.26	45.05	41.60
Close	31	83.33	63.40	63.48	54.41	46.80
Dividends per share	16	2.35	2.02	1.72	1.52	1.38
Book value per share – year end	10	29.77	27.15	26.74	25.91	23.95
Market capitalization (C\$ millions)	32	53,894	40,877	41,644	36,197	31,544
<b>Number of:</b>						
Employees (full-time equivalent)	(991)	60,012	61,003	60,812	59,549	57,568
Automated banking machines	(155)	4,277	4,432	4,469	4,572	4,697
Bank branches						
Canada	6	1,104	1,098	1,104	1,117	1,125
U.S.	(2)	273	275	240	236	240
International	-	42	42	42	42	43

(1) Financial information is derived from our Consolidated Financial Statements, unless otherwise noted. Select definitions are available in the Glossary on pages 141 to 142.

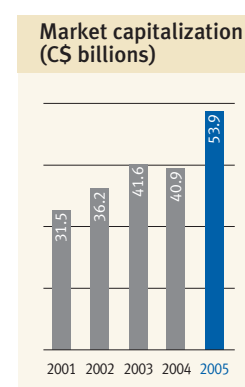
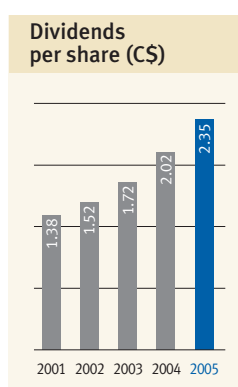
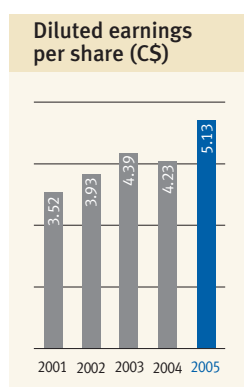
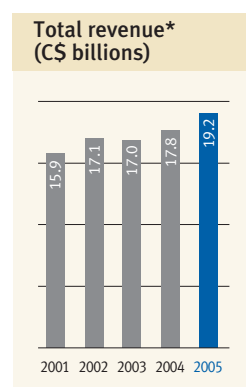
(2) Return on common equity is defined in the Glossary on page 142.

(3) Calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada.

(4) Intraday high and low share prices.

n.m. not meaningful

n.a. Comparable information not available for periods 2001 and 2002.



\* From continuing operations

## Chairman's message



“Good governance, in its broadest sense, is a competitive advantage. To maximize shareholder value on a sustainable basis, principles of good governance must extend beyond the Board of Directors into every segment of business activity.”

**David O'Brien**, Chairman of the Board

The performance of Royal Bank of Canada in the past year reflected the ingenuity and commitment of management and employees in living up to our clients' highest expectations.

The Board of Directors is pleased with the tremendous performance of the organization in 2005, especially in light of significant strategic and organizational changes undertaken during the year. As active participants in the major decisions guiding the organization's strategy and business activities, your board has an important role to play in ensuring management's plans and tactics are prudent and focused on generating shareholder value without exposure to undue risk.

In today's marketplace of continually evolving regulatory and investor expectations, your board has focused on corporate objectives and performance in the context of doing what is right and ethical. The board has provided a critical eye on management activities, evaluating matters through a

shareholder's lens. My fellow directors have demonstrated a strong sense of integrity, corporate responsibility and a willingness to work hard on all issues.

We believe that good governance, in its broadest sense, is a competitive advantage. To maximize shareholder value on a sustainable basis, principles of good governance must extend beyond the Board of Directors into every segment of business activity. Indeed, a foundation of ethics, integrity and good governance guides all of our activities across our diverse operations.

While we are proud contributors to management's success, your board takes seriously its independence, and does not hesitate to challenge management when warranted. In a world where both regulations and opportunities are increasing in volume and complexity, this sound foundation of good governance allows your board to oversee management in a manner that assesses and mitigates risk without

stifling management's creativity and ability to grow shareholder value.

As Chairman, my goal is to provide leadership that will enable the Board of Directors to continue to add value to the company's performance. In the coming year, we remain committed to providing independent and constructive advice to management in their efforts to enhance long-term shareholder value.

I want to thank the directors and management for their efforts in 2005. I also want to extend my appreciation to all 69,000 employees of Royal Bank of Canada around the world for their strong commitment to doing what's best for clients and shareholders. On behalf of the Board of Directors, I wish all of them every success for 2006.

A handwritten signature in blue ink, appearing to read 'David O'Brien'.

David O'Brien  
Chairman of the Board

## Chief Executive Officer's message

“This past year, we launched our Client First Initiative. We realigned our organization, focused more resources on helping our employees enhance client service and improve our efficiency and effectiveness by working to eliminate excess processes and duplication. I am proud of the progress we have made in advancing our reputation as a client-focused competitor. Our employees' efforts have produced exciting results – greater client satisfaction and superior shareholder returns.”

**Gordon M. Nixon**, President and Chief Executive Officer



This report is titled after our vision, *Always earning the right to be our clients' first choice*. Our accomplishments are detailed in this report and they demonstrate our strengths and the power of our Client First Initiative, a strategy designed to generate value for clients and shareholders.

I am pleased to report to you that we delivered record performance in 2005, and an impressive 35 per cent total return to common shareholders (the combination of share price appreciation and dividends). We streamlined all of our operations to make us more cost-effective while each of our business segments grew revenue by successfully executing their strategies in favourable economic conditions. Together, these efforts resulted in impressive operating leverage (the difference between revenue growth and non-interest expense growth rates) for the year and a solid foundation for our future growth. In addition, we

further enhanced our best-in-class risk, capital and human resource practices – all important contributors to shareholder returns. Most importantly, our business growth and enhanced efficiency was achieved while our client satisfaction strengthened.

All business segments and corporate support areas identified numerous cost initiatives with specific targets to improve our productivity and flexibility and they delivered on a number of them in 2005. Savings from these initiatives are being reinvested into both product and client facing initiatives in order to fuel further revenue growth.

Our Global Technology and Operations group delivered savings by bringing together all of our technology and operations capabilities, by consolidating operation centres, creating centres of excellence or expertise such as contact centres and securities processing centres, and by selectively

expanding the use of offshore information technology. Our Global Functions group also enhanced efficiency while maintaining our risk profile, lowering our cost of capital and elevating our performance management capabilities.

We have taken steps to provide our clients with greater access to our services and products. For example, our Canadian business clients can now open a new business account the same day they walk into most branches across the country. Our personal clients with smaller investment accounts now have access to world-class, structured investment solutions designed to meet their investment objectives. A detailed discussion of our **RBC Canadian Personal and Business** segment's efforts to serve our 13 million clients better and key operating highlights for 2005 are provided on pages 8 to 11.

**Barbara G. Stymiest**  
Chief Operating Officer



“Our specialized professionals will continue to manage all aspects of our financial performance and risk profile while driving our client-focused enterprise strategy.”

**Martin J. Lippert**  
Group Head, Global Technology and Operations



“In 2006, we will focus on making it easier for our clients to do business with us by continuing to deliver high-quality sales and service within an industry-leading environment that is secure, responsive, flexible and innovative.”

**Elisabetta Bigsby**  
Group Head, Human Resources and Transformation



“The root of our competitive advantage is the wealth of our people’s insights and abilities to develop better and different ways of creating value for clients and shareholders.”

In the U.S., our commercial and small business clients were given more options and greater flexibility to manage their businesses with enhancements to our suite of products and services such as new longer-term mortgages on owner-occupied real estate at fixed rates. In addition, our U.S. clients in their pre-retirement years received enhanced solutions to help them better plan for their retirement through the launch of our Converting Wealth to Income initiative. A detailed discussion of our **RBC U.S. and International Personal and Business** segment’s 2005 operating highlights is provided on pages 12 to 15.

In 2005, our institutional clients gained better access to our global distribution and world-class fixed income expertise through the integration of RBC Dain Rauscher’s fixed income operations into our global markets business. A detailed discussion of **RBC Capital Markets** and the segment’s 2005 operating highlights are provided on pages 16 to 19.

We have invested and will continue to invest in our businesses, in ways to better service our clients, whether through more accessible channels, more branches in high-growth markets, more people to serve clients in key markets or more innovative products. Our objective is to maintain the highest level of client satisfaction while providing top-tier returns to our shareholders.

#### **2005 Performance review**

We met or exceeded most of our objectives in 2005. Diluted earnings per share growth was in excess of 20 per cent and return on common equity of 18 per cent was within our targeted range. Revenue growth of 8 per cent reflected successful execution of a number of carefully planned initiatives in Canada, the United States and outside North America and favourable economic conditions. While our non-interest expenses were up 5 per cent, they were flat excluding a litigation reserve taken for pending Enron Corp.-related actions. Strong risk management, a relatively benign credit environment and higher corporate recoveries resulted in good portfolio

**W. James Westlake**

Group Head, RBC Canadian Personal and Business



“We are building on our industry leadership position to be number one with our clients and truly differentiate ourselves in the Canadian financial services marketplace.”

**Peter Armenio**

Group Head, RBC U.S. and International Personal and Business



“Our RBC U.S. and International businesses are very focused. We’ve put the right business models and management teams in place to be successful in the U.S. and around the globe.”

**Charles M. Winograd**

Group Head, RBC Capital Markets



“Everything we do is focused on building a deeper understanding of our clients’ funding and investing strategies and then helping them accomplish their goals.”

quality performance. In addition, we strengthened our capital position to remain comfortably above our objectives, while achieving a dividend payout ratio of 45 per cent, within our target range. Our common share dividend was up 16 per cent in 2005.

In 2005, our shareholders benefited from a 31 per cent increase in our common share price and from three dividend increases, resulting in a total shareholder return of more than 35 per cent. Over the past 10 years, we have delivered an annualized total return to common shareholders of 22 per cent.

**2006 Outlook and objectives**

We believe we have set aggressive financial objectives for 2006, as shown on page 7, on the expectation that the Canadian economy will remain strong while the U.S. economy may slow moderately in response to higher interest rates. We expect the pace of growth in retail lending to slow next year given increases in interest rates, higher energy costs and the expected softening of the housing market and the resulting effect on the demand for

durable goods. Business lending is expected to grow at a similar rate as in 2005 given continued investment in inventories.

We made changes to our return on equity (ROE), expense control, portfolio quality and capital management objectives for 2006 compared to the objectives we had in place during 2005. We have raised the ROE objective to 20 per cent plus from 18 to 20 per cent and replaced the expense control objective with an operating leverage objective as we believe it is more meaningful to look at expense growth in relation to revenue growth. We have also increased the portfolio quality (specific provision ratio) objective reflecting our view that 2006 will present fewer recovery opportunities. In addition, we have set a floor for the Tier 1 capital objective of 8 per cent rather than a range, and removed the Total capital ratio objective as our key stakeholders consider the Tier 1 capital ratio the primary measure of capital strength. Needless to say, it is our objective to continue to consistently generate strong returns for our shareholders.

We have narrowed our medium-term (defined as three to five years) objectives down to one goal – to consistently generate top quartile total shareholder returns in relation to our Canadian and U.S. peer group. We expect to continue providing financial objectives on an annual basis.

**RBC strategic goals**

Our three enterprise goals are:

1. To be the undisputed leader in financial services in Canada.
2. To build on our strengths in banking, wealth management and capital markets in the United States.
3. To be a premier provider of selected global financial services.

We performed well against these goals in 2005, increasing market shares in many key products in Canada, improving our positions and performance in key businesses in the United States, and growing in select global areas, such as the Caribbean, Global Private Banking and international capital markets operations.

We are committed to making further progress against our key goals in the future, mindful of the challenges

“We are building on the core strengths that make RBC distinctive – our people, our clients and our ability to deliver deep financial insight – to deliver value to our clients.”

the upcoming year poses, including increased competition in the Canadian market, volatile capital markets activity, the potential for higher energy prices and rising interest rates. Our response to these and other challenges will be rooted in our ability to leverage our competitive advantages, continually seek new ways to grow revenue and maintain disciplined cost management, and optimize our use of capital.

#### **Corporate responsibility and governance**

Our approach to sound corporate governance starts at the top with a non-executive Chairman and knowledgeable, well-informed directors whose main focus includes overseeing management, strategic planning, ensuring standards exist to promote ethical behaviour and continuous improvement to governance practices. A description of our corporate governance system and board committee mandates and activities is on pages 144 to 145.

We believe that good governance and corporate responsibility require controls and programs to promote a proactive governance culture within our global network. At RBC, our ethical and corporate leadership is founded on controls, policies and practices directed at strengthening the Board of Directors’ supervision of management and creation of value for shareholders, employees, clients and communities. A discussion of our approach to corporate responsibility and how we operate our business, support economic prosperity and contribute to communities is outlined on pages 25 to 28.

The strength of our corporate responsibility is founded on our commitment to high standards of governance and integrity in all facets of our business activities. Our employees understand that our success is founded on ethical behaviour, teamwork and our commitment to providing value to all stakeholders.

#### **Our employees**

Our strong performance this past year reflects the tremendous dedication, commitment and hard work of all of our employees. Our employees are continually looking for ways to earn the right to be our clients’ first choice. Our renewed strategic direction, sharpened focus on clients, revenue growth and cost management are the right steps to enable us to continue providing top returns for our shareholders. When these actions are combined with the quality, diversity, insight and abilities of our employees, we believe we can increase the distance between us and our competitors.



Gordon M. Nixon  
President and Chief Executive Officer

# 2005 Performance review

The table below shows our 2005 performance compared to our objectives for the year.

	2005 Objectives <sup>(1)</sup>	2005 Performance	Comments
1. Valuation (vs. S&P/TSX Banks Index)			
<ul style="list-style-type: none"> <li>• Share price/book value</li> <li>• Share price/earnings</li> <li>• Share price growth</li> </ul>	1st quartile 1st quartile Above Index	2nd quartile <sup>(2)</sup> 2nd quartile <sup>(3)</sup> Above Index	
2. Diluted earnings per share (EPS) growth	20%+	21.3%	Our diluted EPS growth excluding the Enron litigation reserve would have been 33.1% <sup>(4)</sup>
3. Return on common equity (ROE)	18–20%	18.0%	Our ROE excluding the Enron litigation reserve would have been 19.7% <sup>(4)</sup>
4. Revenue growth	6–8%	8%	
5. Non-interest expense control	Less than 3%	5%	Non-interest expense excluding the Enron litigation reserve would have remained flat this year <sup>(4)</sup>
6. Portfolio quality <sup>(5)</sup>	.35–.45%	.21% <sup>(5)</sup>	
7. Capital management			
Capital ratios: Tier 1 capital	8–8.5%	9.6%	
Total capital	11–12%	13.1%	
8. Dividend payout ratio	40–50%	45%	

- (1) Our 2005 objectives were established in late 2004 when U.S. GAAP was our primary GAAP for reporting purposes. Although we adopted Canadian GAAP as our primary GAAP effective the second quarter of 2005, we maintained these objectives since our performance under U.S. and Canadian GAAP does not differ materially. These objectives were based on an expected average Canadian dollar value of US\$.80 in 2005.
- (2) Computed by us on October 31, 2005, based on book values at July 31, 2005.
- (3) Computed by us on October 31, 2005, based on analysts' average diluted EPS estimates for 2006.
- (4) The Enron litigation reserve recorded in the fourth quarter was \$591 million (\$326 million after-tax). 2005 performance excluding the Enron litigation reserve is a non-GAAP measure. Refer to the Key financial measures (non-GAAP) section in the Management's Discussion and Analysis for a discussion and reconciliation.
- (5) This ratio is based on specific provisions for credit losses to average loans and acceptances. A \$52 million transfer of the allocated specific allowance to the allocated general allowance during the first quarter of 2005 decreased this ratio by .03%.

## 2006 Objectives

	Objectives
1. Diluted earnings per share (EPS) growth	20%+ <sup>(1)</sup>
2. Return on common equity (ROE)	20%+
3. Revenue growth	6–8%
4. Operating leverage	> 3% <sup>(2)</sup>
5. Portfolio quality <sup>(3)</sup>	.40–.50%
6. Capital management: Tier 1 capital ratio	8%+
7. Dividend payout ratio	40–50%

- (1) Based on 2005 total reported diluted EPS of \$5.13.
- (2) Operating leverage is the difference between revenue growth rate and non-interest expense growth rate. Our 2006 objective for operating leverage is based on 2005 non-interest expenses excluding the Enron litigation reserve of \$591 million recorded in Q4 2005.
- (3) Ratio of specific provisions for credit losses to average loans and acceptances.

## Medium-term objective

	Objective
1. Total shareholder return <sup>(1)</sup>	Top quartile <sup>(2)</sup>

- (1) Total shareholder return is calculated based on share price appreciation plus dividend income.
- (2) Versus seven large Canadian financial institutions (Manulife Financial Corporation, Bank of Nova Scotia, TD Bank Financial Group, BMO Financial Group, Sun Life Financial Inc., Canadian Imperial Bank of Commerce and National Bank of Canada) and 13 top U.S. financial institutions (Bank of America, JP Morgan Chase & Co., Wells Fargo & Company, Wachovia Corporation, US Bancorp, Sun Trust Banks, Inc., The Bank of New York, BB&T Corporation, Fifth Third Bancorp, National City Corporation, The PNC Financial Services Group, KeyCorp and Northern Trust Corporation).

Our RBC Canadian Personal and Business segment consists of our banking and wealth management businesses in Canada and our global insurance businesses. It consists of: Personal Banking, Business and Commercial Banking, Cards and Payment Solutions, Wealth Management and Global Insurance.

Our extensive distribution network, innovative products, inspired workforce, strong client analytics and commitment to our clients are key competitive strengths we continue to leverage in order to distance ourselves from the competition.

With over 40,000 dedicated employees, including operational support, we provide financial products and services to over 13 million individual and business clients. Our integrated distribution capabilities serve clients through our extensive branch, ABM, online and telephone banking networks, as well as through a large number of proprietary sales forces and investment advisors in addition to a wide-ranging third-party network of independent insurance distributors.

**Meeting client needs with banking, wealth management and insurance solutions**

# RBC Canadian Personal and Business

**“We’re in partnership with our clients. We offer financial solutions, not products, from credit to investment, tax planning and estate planning. At RBC, we’re encouraged to find our client the solution of best fit. We are recognized for always putting our clients first.”**

**Rebecca Mand**  
Financial Planner  
Vancouver, Canada

Looking forward, our integrated strategy to optimize distribution, simplify processes and focus on high-return markets will help ensure our continued and expanding leadership position in the Canadian financial services industry.

#### **Personal Banking**

Our Personal Banking business focuses on meeting the needs of individual clients at every stage of their lives, through a wide range of products and services including home equity and

automotive financing, personal loans and lines of credit, as well as core deposit accounts.

In 2005, we grew our residential mortgages, personal loans and credit card portfolios by well over 10 per cent each and maintained our leading market share of residential mortgages in Canada.

We also developed a convenient new client statement option for our more than two million online banking clients. These clients can now choose

to eliminate their paper statements and view their account activity securely online. To date, over 25 per cent of active online banking clients have chosen this option, resulting in more timely service and considerable cost savings.

#### **Business and Commercial Banking**

Business and Commercial Banking provides value-added financial solutions and advice to help foster and grow businesses. We offer a wide range of lending, leasing, deposit and



Providing our clients with the products and services to meet their unique needs by leveraging the best of our banking, wealth management and insurance expertise.

## Distribution channels

**1,104** branches

**3,906** automated bank machines (ABMs)

**3.5 million** online clients

**2.5 million** telephone clients

**437** investment retirement planners

**1,063** financial planners

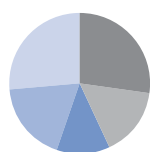
**371** insurance agents

**975** mortgage specialists

According to our 2005 Business Market Intelligence Study conducted by Maritz Research Company, “more Canadian business owners recommend RBC than any other bank.”

For the third consecutive year, RBC was named “Canada’s Most Respected Corporation” in an annual Ipsos-Reid/KPMG survey as reported by *The Globe and Mail*.

RBC Canadian Personal and Business 2005 Revenue by business line



- 28% Personal Banking
- 16% Business and Commercial Banking
- 12% Cards and Payment Solutions
- 18% Wealth Management
- 26% Global Insurance

transaction products and services to small and medium-sized businesses and commercial, farming and agriculture clients.

In 2005, we increased our sales force across Canada to better serve our business clients. This included doubling our small business sales force and extending its capability to address both the business and personal needs of small business owners.

We also streamlined processes to make it easier for clients to do business with us. The new business account opening process facilitates same day account opening in any branch across Canada. In addition, clients seeking a small business credit product are now able to apply over the telephone.

### Cards and Payment Solutions

The Cards and Payment Solutions business provides a wide array of credit cards and related payment products and solutions.

In February 2005, coffee-lovers in Canada began taking advantage of a new hybrid card, combining an RBC *Visa* card with the popular, reloadable Starbucks Card. The Starbucks

Duetto *Visa* Card – the first of its kind in Canada – offers consumers the ability to pay, reload, earn and redeem rewards with one convenient card.

Our recognition of the increased frequency of travel to Asia led us to partner with Cathay Pacific and introduce the RBC Cathay Pacific *Visa* Platinum Card, the only credit card that allows Canadians to earn Cathay Pacific Asia Miles every time they use their *Visa* card. In addition, RBC and Esso extended their long-standing alliance by offering members of both RBC Rewards and Esso Extra the ability to transfer blocks of points between the two card loyalty programs.

In March 2005, we also enhanced the client offering of our RBC Business Avion card by making it more affordable for business owners to separate their business from personal spending and enabling them to consolidate their RBC Rewards points from both business and personal purchases.

In June 2005, we became the first Canadian financial institution to process an Interac Online transaction. The introduction of Interac Online provides consumers with another

## Segment strategy

- Optimize distribution by aligning employees and clients to deliver the right product through the right channel at the right time.
- Simplify process and structure for everything from account opening to credit decisions to make it easier for clients to do business with us and improve efficiency.
- Focus on high-return markets.

## 2005 Accomplishments

We experienced strong volume and revenue growth across all lines of business including loan growth of 10 per cent as compared to 2004.

We continued to rank number one or two in market share for all major financial services products and services in Canada.

RBC Insurance opened its first two new concept multi-line insurance outlets located next to RBC Royal Bank branches.

For the second consecutive year, RBC Asset Management led the Canadian mutual fund industry in net sales of long-term funds.

option to pay for purchases over the Internet through a direct debit to their bank account.

### Wealth Management

Wealth Management provides investment and trust products and services through our branch network of 9,000 licensed mutual fund salespeople, as well as through full-service and self-directed brokerage, asset management, trust services, investment counselling and private banking.

During the first quarter of 2005, RBC Asset Management, the investment manager of RBC Funds, achieved more than \$1 billion in long-term net sales for the first time in its history. Strong advisor and client demand for our products across multiple distribution channels has driven us to be the industry leader in sales of long-term mutual funds for eight consecutive quarters since the beginning of 2004.

In January, we launched the RBC O'Shaughnessy International Equity Fund, developed by well-known investment manager and author Jim O'Shaughnessy. The RBC O'Shaughnessy International Equity Fund is the fourth in the RBC

O'Shaughnessy series, available to investors in Canada exclusively through RBC Asset Management.

In the last quarter of 2005, we introduced RBC Managed Portfolios, an investment service offered exclusively through our financial planners, who are located in bank branches, and mobile investment specialists. This service gives clients an investment solution customized to both their risk and return objectives and the size of their portfolios.

Our full-service brokerage business, RBC Dominion Securities, began offering a Global Portfolio Series – providing clients with smaller investment accounts access to world-class investment solutions in a portfolio tailored to their investment objectives.

Our trust services area launched the “Agent for Executor” service for our clients who require assistance in discharging their multiple responsibilities as executors of wills and estates.

### Global Insurance

Global Insurance offers a wide range of life, creditor, health, travel, home and auto insurance products and services to individual and business clients in

Canada and the U.S. as well as reinsurance for clients around the world.

In 2005 we responded to clients who said they wanted to meet face to face with an insurance advisor for home, auto, travel and life insurance products by opening our first two new concept multi-line insurance outlets. Under the RBC Insurance banner, each outlet is located next to an RBC Royal Bank branch, one in Scarborough, Ontario and the other in Hamilton, Ontario. RBC Insurance plans to open several more offices near RBC Royal Bank branches over the next year.

We also made several changes to enhance client experience and convenience by making greater use of online tools and services. RBC Insurance provided the opportunity for online discounts for some home and auto insurance products. We also expanded our online quoting services and underwriting capabilities for home and auto insurance, including giving clients the ability to view their policy and billing status, change their billing information, view their policy documents and access a glossary of terms used in our policies.

Our RBC U.S. and International Personal and Business segment is comprised of our non-Canadian personal and business banking and wealth management businesses. It includes RBC Centura (personal and business banking in the U.S.), Caribbean banking, RBC Dain Rauscher (U.S. wealth management) and Global Private Banking.

In 2005, our businesses focused on building our strengths in banking and wealth management in the U.S. and the Caribbean and private banking globally.

Our strategy is to:

- Leverage the global resources of RBC to develop local solutions for our individual and business clients.
- Focus on businesses, business owners and professionals to build a leading banking position in the Southeast U.S. market.
- Enhance our market position in the Caribbean.
- Develop a broad range of integrated advisory and balance sheet solutions for our wealth management clients across the U.S. and around the globe.



The following 2005 highlights demonstrate our focus on enhancing performance, investing in activities integral to our future growth, and leveraging our product, service and distribution strengths to meet the needs of our clients.

#### **Wealth Management**

Wealth Management is comprised of RBC Dain Rauscher in the U.S., with 140 branch offices in 40 states, and Global Private Banking (GPB), with 30 offices in 21 countries around the globe. RBC Dain Rauscher's financial

consultants offer investment advisory and asset management services to individuals and business owners. RBC Dain Rauscher also delivers clearing and execution services to small and mid-sized independent broker-dealers across the U.S. Internationally, GPB provides high net worth individuals and corporate and institutional clients with private banking and credit, trust services, discretionary investment management, full-service brokerage and global custody and fund administration.

#### **RBC Dain Rauscher**

In 2005, RBC Dain Rauscher grew assets in fee-based programs by 24 per cent. We also launched several new initiatives to meet the needs of our clients. For example, our clients' need for more sophisticated retirement income planning led us to launch our Converting Wealth to Income initiative. This approach helps clients in their pre-retirement years develop strategies for creating a steady stream of income during their retirement, while

**Delivering client value through innovative banking and wealth management services**

# RBC U.S. and International Personal and Business

**“We focus on our client’s personal goals. It is as simple as that. We help clients meet their financial needs, solve problems and essentially build and preserve wealth during their lifetime.”**

#### **Chris Andreach**

Financial Consultant  
New Jersey, U.S.

RBC U.S. and International Personal and Business is comprised of complementary businesses intent on meeting the unique needs of our clients in their respective markets.

## Distribution channels

RBC Centura	<b>273</b> branches <b>303</b> ABMs
Caribbean	<b>42</b> branches <b>4</b> business centres <b>68</b> ABMs
RBC Dain Rauscher	<b>140</b> branch offices <b>40</b> states
Global Private Banking	<b>30</b> offices <b>21</b> countries

In a *Euromoney* survey released in January 2005, our Global Private Banking division ranked as the No. 1 provider of trust services in the U.K. and No. 6 worldwide. We also ranked as the No. 3 private bank in Brazil and No. 4 in the Americas.

On November 30, 2005, we acquired Abacus Financial Services Group Limited, significantly strengthening our Global Private Banking operations in the strategically important British Isles marketplace and providing a greater presence in Europe.

addressing issues such as longevity, withdrawal rates and inflation.

In partnership with GPB, we introduced the RBC Premier Line of Credit, designed to meet the complex credit needs of our high net worth clients. This revolving line of credit, which is secured by one or more of a client's eligible investment accounts, gives clients the opportunity to borrow money for their personal needs without selling their investments or disrupting their existing investment strategy. GPB has approved over US\$400 million in credit lines with US\$250 million in credit outstanding as of October 31, 2005.

### Global Private Banking

In 2005, we expanded in the Americas by opening representative offices in Porto Alegre, Brazil, and San Francisco, and by establishing an International Client Group consisting of 25 international private banking and investment specialists in Vancouver. This group provides a range of wealth management and banking solutions to non-resident clients active in Asia Pacific markets, as well as Canadian citizens living and working abroad.

We also introduced an integrated wealth management model, including the designation of a primary relationship manager for each of our high net worth clients. This relationship model provides clients with a single point of contact for dealing with us, allowing us to develop a deeper understanding of our clients' needs over time.

Our high net worth clients have the full benefit of our broad organizational strengths. For example, the structured product capability of RBC Capital Markets has given our clients access to innovative, customer-designed solutions. In addition to structured notes, GPB clients have access to commodities hedging, alternative assets and equities products through our New York and London desks. In 2005, sales of these products generated US\$700 million in new assets.

### Banking

Personal and business banking is comprised of RBC Centura, with 273 branches in the Southeast U.S., and our network of 42 branches in eight Caribbean countries. RBC Centura continues to serve its personal clients, with a special focus on meeting the

## Segment strategy

- Leverage the global resources of RBC to develop local solutions for our individual and business clients.
- Focus on businesses, business owners and professionals to build a leading banking position in the Southeast U.S. market.
- Enhance our market position in the Caribbean.
- Deliver a broad range of integrated advisory and balance sheet solutions for our wealth management clients across the U.S. and around the globe.

## 2005 Accomplishments

Improved business performance at RBC Centura by increasing loans and deposits, while reducing expenses.

Grew revenue in the Caribbean, reflecting improved sales management processes.

Increased fee-based assets at RBC Dain Rauscher by 24 per cent.

Introduced an integrated wealth management model for Global Private Banking high net worth clients.

Leveraged organizational capabilities to create and distribute new products. Global Private Banking offered clients customized structured notes, commodity hedge products and alternative asset solutions, delivered by RBC Capital Markets. In addition, RBC Dain Rauscher launched RBC Premier Line of Credit in partnership with Global Private Banking.

needs of businesses, business owners and professionals. Caribbean banking is building upon its 100-year history by focusing on deepening its client relationships.

### RBC Centura

RBC Centura significantly improved business performance in 2005 by focusing on growing loans and deposits, which increased by 16 per cent and 9 per cent, in U.S. dollars, respectively, over 2004. At the same time, we reduced costs by streamlining our support functions. In 2005, we selectively opened eight branches in high-growth markets and closed several less-profitable branches.

Our commercial banking business grew deposits by 28 per cent and increased loans by 18 per cent, in U.S. dollars, by addressing local client demand and making several enhancements to our suite of commercial and small business products and services. For example, we now offer longer-term mortgages on owner-occupied real estate at fixed rates to small business owners.

In 2005, we refinanced one of the largest real estate transactions in Raleigh, NC, with US\$105 million

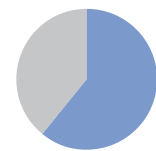
refinanced. In addition, our commercial markets teams in Atlanta and Toronto partnered to close an important credit facility for a major commercial client, who plans to expand into Canada in the next 12 months.

In taking a focused approach to our core U.S. business of banking and wealth management, we announced and completed the sale of certain assets of RBC Mortgage Company to Home123 Corporation, a wholly owned subsidiary of New Century Mortgage Corporation. We continue to provide mortgage services in the Southeast U.S. to our clients through RBC Centura. We expanded our in-branch mortgage business at RBC Centura, nearly doubling origination volume to US\$982 million.

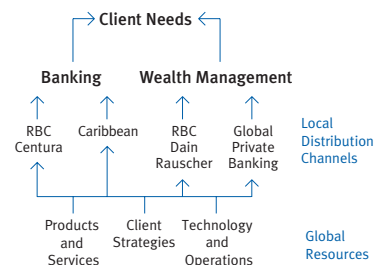
### Caribbean banking

In the Caribbean we operate under the brand name RBC Royal Bank of Canada, where our strategy is to grow organically by building on our strong presence in the region and by offering a superior full-service banking experience. In 2005, improved sales management processes contributed to strong revenue growth.

RBC U.S. and International Personal and Business 2005 Revenue by business line



Local solutions, global resources



Our RBC Capital Markets segment provides a wide range of corporate and investment banking, sales and trading, research and related products and services to corporations, governments, and large commercial and institutional clients.

Throughout 2005, we continued to build a strong global franchise with steady growth and earnings. We are focused on achieving our four strategic objectives, which are to:

- Advance our leadership in Canada.
- Achieve sustainable leadership in the U.S. mid market.

- Become a leading trader and structurer of converging asset classes.
- Build a top-tier global fixed income bank.

At the end of 2005, RBC Capital Markets stands as a leader in the Canadian capital markets. Despite weak equity markets, we made considerable progress in building a mid-market client base in the U.S., particularly in energy and real estate, two sectors in which we have proven expertise. The year also saw the creation of a truly global fixed income business, giving clients access to the best funding and investing opportunities around the world.

Providing innovative products, services and advice to institutions, corporations, governments and large commercial clients

# RBC Capital Markets

**“We strive to understand our clients’ business and strategy, and provide advice and solutions to help them accomplish their objectives. We are responsible for the overall client relationship and bring in the applicable RBC product specialists to help deliver the products or services that will meet our clients’ needs.”**

**Sade Laleye**  
National Clients  
Calgary, Canada



Structured products developed by RBC Capital Markets drive revenue growth for our distribution businesses that serve affluent individuals, high net worth clients and institutional investors, all served by diversified distribution networks across our businesses around the world.

#### **Global Markets**

Global Markets consists of debt, money market, foreign exchange, derivatives, alternative assets, private debt and equity and proprietary trading.

Recognizing that clients need full access to global debt markets and currencies, we have been investing in this strategically important business. This year, we integrated RBC Dain Rauscher's fixed income operations into our Global Markets business. This combined capability, coupled with a global distribution network, enabled us to lead in such transactions as the oversubscribed US\$1 billion debt issuance by Germany's largest development agency, Kreditanstalt für Wiederaufbau Bankengruppe.

We expanded the number of electronic debt trading platforms we offer to clients. By the end of calendar year 2005, we expect to add two new electronic trading platforms, Market Access and Trade Web, bringing the number of trading platforms available to our clients to six.

The ongoing expansion of our structured products business is in the service of clients who seek to arbitrage the risks of doing business across borders and currencies. In 2005, we



RBC Capital Markets continues to build a top-tier global business, offering our clients specialized expertise and sophisticated structuring capabilities.

## Global presence

**11** countries

**60** offices

**4,600** employees

In 2005, RBC Capital Markets was awarded top underwriter in 2004 for Canadian equities by *Bloomberg*.

RBC Capital Markets was named Canadian Debt House of the Year and Canadian Equity House of the Year by *Euromoney's* Awards of Excellence.

*Euromoney's* annual foreign exchange survey ranked RBC Capital Markets top Canadian dollar trader globally and 15th worldwide based on its overall market share of the trillion-dollar-a-day global foreign exchange market.

expanded our structured products platform to support structured credit derivatives and structured interest rate derivatives in Tokyo, expanded our U.K. capabilities and moved into new markets.

We also broadened our menu of structured products for the retail market, with the introduction of commodity-linked notes that provide investors returns based on commodities prices such as aluminum, crude oil, copper, lead, natural gas, nickel and platinum.

We are proud of our strength in Australian dollar and Sterling bonds and our global leadership as a trader of Canadian currency. We continue to rank as the leader in Canada in all aspects of the debt market and have made significant inroads in the U.S. fixed income market, as evidenced by leading rankings in the U.S. municipal finance sector.

In the United Kingdom, RBC Capital Markets is one of only nine market-making members of the London Bullion Market Association – clear recognition

of our interbank market-making services in gold and silver spot, forwards and options contracts. Our infrastructure business is growing as governments seek to privatize activities that were traditionally government-run.

### Global Investment Banking and Equity Markets

These operations comprise corporate and investment banking, and equity sales and trading businesses.

In Canada, we are committed to being the number one choice for Canadian corporations. Our success is based on a long history of helping Corporate Canada grow through new capabilities like electronic trading, new structured products, and a greater presence in key markets like the U.S.

We are also building our investment banking and equity markets business in the U.S. This growing North American capability enabled us this year to lead in such transactions as the largest equity financing for any U.S. independent oil company in 2005.

## Segment strategy

- Advance our leadership in Canada.
- Achieve a sustainable leadership in the U.S. mid market.
- Become a leading trader and structurer of converging asset classes.
- Build a top-tier global fixed income bank.

## 2005 Accomplishments

Strengthened our global distribution and fixed income capabilities through the integration of RBC Dain Rauscher's fixed income operations.

Continued to build our presence in U.S. mid-market investment banking with such landmark transactions as the US\$600 million stock issue for Southwestern Energy Company, the largest secondary financing in the U.S. energy sector this year.

With the issuance of more than 100 retail structured notes for retail clients, progressed in our goal to leverage our structuring and distribution capabilities around the world.

Announced the creation of a joint venture, RBC Dexia Investor Services, with approximately US\$1.8 trillion in client assets under custody, which will rank among the world's top 10 global custodians. The transaction is expected to close in fiscal 2006.

### Institutional & Investor Services

This business provides custody and investment administrative services to corporate and institutional investors worldwide.

In June, we announced the creation of a joint venture, RBC Dexia Investor Services, which will significantly expand our already strong custody operations. The company will have approximately US\$1.8 trillion in client assets under custody, rank among the world's top 10 global custodians and offer a complete range of investor services to institutions around the world. The transaction is expected to close in fiscal 2006.

For the second consecutive year, our Institutional & Investor Services was ranked number one in the world for Global Custody Services in the *Global Investor* magazine 2005 Global Custody Survey.

### Other

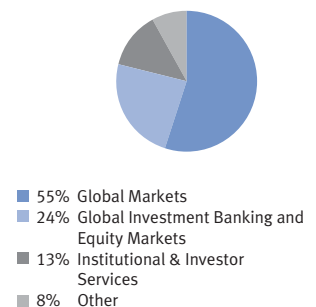
The Other line of business consists of National Clients group, Research, and, aggregated under Global Credit, the non-strategic lending portfolio and centralized management associated with the segment's core lending portfolios.

Our National Clients group was created in the fall of 2004 to help RBC Capital Markets build a leading reputation in serving the needs of the Canadian mid market – companies with revenue in excess of \$100 million. These firms can be more successfully and efficiently served by higher skilled relationship management and more direct access to products and services typically available to corporate clients. In its first year of business, the National Clients group has performed above expectations by providing clients with growth strategies and access to both the capital markets and related products and services.

The RBC Capital Markets Research division provides research, analysis and recommendations to clients about the Canadian and U.S. equity markets, the global foreign exchange, fixed income and credit markets as well as views on industry sectors, global economic trends and performance. Our analysts and the research they produce are respected globally for their insight, depth and objectivity.

RBC Capital Markets was the leading Canadian dollar bond new issue dealer in the first half of 2005, domestically and globally.

RBC Capital Markets  
2005 Revenue (teb)\* by business line



\* Total revenue on a taxable equivalent basis (teb) is a non-GAAP financial measure. For further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section in the Management's Discussion and Analysis.

Enabling innovative business growth and providing professional advice

# Corporate Support

Our more than 18,000 employees in Global Technology and Operations (GTO) and Global Functions together form our Corporate Support team, which uses best practices to help meet the needs of our clients and help RBC develop innovative ways to generate revenue, realize cost savings and facilitate efficient processes and resource allocation. Corporate Support provides professional advice and timely support to our businesses, and maintains a sound governance framework that is critical to our success.

## Global Technology and Operations

In partnership with our businesses, GTO provides the operational and technological foundation required for delivery of the client experience. We also deliver client sales and service directly through our contact centre network.

GTO comprises Personal and Business GTO Centres, Wholesale GTO Centres, Enterprise Operations, Information Technology (IT) Applications, IT Infrastructure and Innovation and Process Design.

Our priorities are to:

- Provide new solutions to drive client value and make it easier to do business with RBC.
- Explore opportunities to leverage innovation by identifying emerging trends in applied technology, processes, and sales and service capabilities.

- Ensure our systems, processes and operational capabilities are secure and sound, meeting all regulatory requirements.
- Establish an effective and cost-efficient GTO organization while maintaining responsiveness to our businesses.

During 2005, we continued to maintain and enhance the means of delivery for new products and services, developed our technological capability and ensured all regulatory and compliance requirements were met. RBC was named to *CIO Magazine's* list of the best companies in the world for technology and organizational excellence in 2005.

## Global Functions

The Global Functions team consists of specialized professionals driving enterprise strategy that is aligned with strong performance management capabilities. We effectively manage our people, asset/liability profile and spread income, capital ratios and tax position while maintaining our risk profile and relationships with investors, credit rating agencies, regulators and other stakeholders in the increasingly challenging environment facing global financial services organizations.

Our team consists of Human Resources, Corporate Treasury, Finance, Group Risk Management,

## 2005 Accomplishments

RBC contact centres handled approximately 100 million client calls in 2005, resulting in sales of \$13 billion.

Using innovative and cost-effective techniques, we were able to significantly strengthen our capital ratios while raising our common share dividend 16 per cent in 2005 over the previous year.

Strategy and Corporate Development, Internal Audit, General Counsel, Brand Management, Sponsorships and Corporate Communications.

Our priorities are to continue to:

- Align our training, development and rewards programs to help employees meet the needs of our clients.
- Invest in capabilities to better measure, understand and manage risk and capital, in conjunction with the Basel II initiative.
- Enhance our controls to ensure our legal, financial and corporate systems reflect sound governance and best practice.
- Develop enterprise compliance management initiatives.
- Enhance performance measurement and the level of disclosure to the investment community.
- Work with our businesses to effectively optimize external spending through enterprise-wide procurement and real estate initiatives.
- Implement our Client First Initiative by streamlining processes and improving organizational effectiveness and efficiency.

In 2005, we contributed to our corporate goals and objectives by providing more focused, efficient and responsive support to the enterprise as a whole and to each of our businesses.

# Responding to you

## 1. What major changes have you undertaken with your Client First Initiative and do you anticipate further changes?

In 2005, we made great progress towards becoming a more client-focused organization. The significant changes we undertook primarily related to our structure, people, processes and initiatives.

- **Organization** – We realigned our business segments from five to three in order to allow us to work better together to anticipate and efficiently serve the distinct needs of key client groups. The changes set the foundation for stronger revenue growth and enhanced efficiency, and our three business segments (RBC Canadian Personal and Business under the leadership of Jim Westlake, RBC U.S. and International Personal and Business under Peter Armenio's direction, and RBC Capital Markets led by Chuck Winograd) were able to accelerate product and service innovation. We also centralized and streamlined our operations and technology groups and corporate support functions across our businesses (all under the Corporate Support segment), which improved their effectiveness and cost structure.

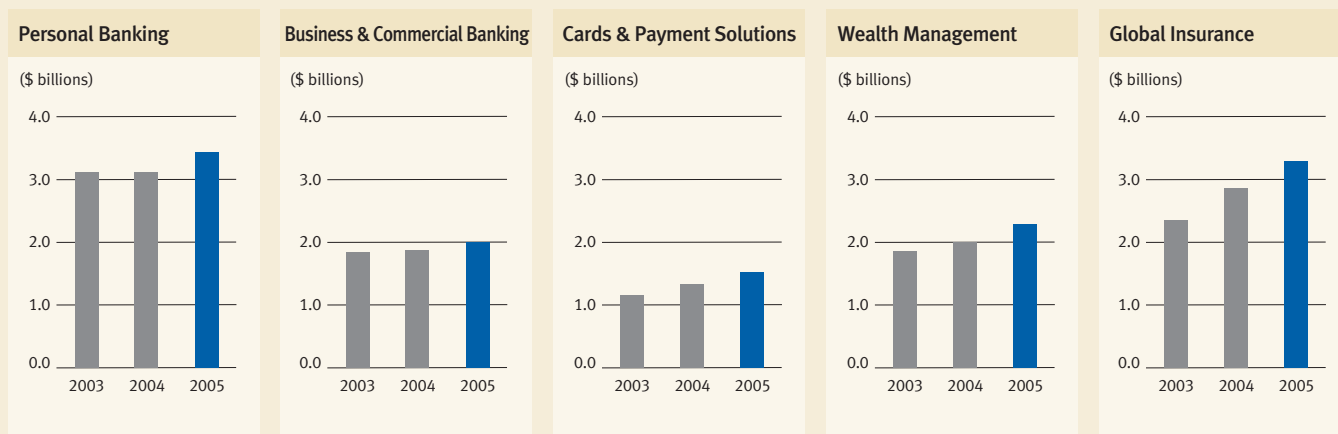
- **People** – Client First Initiative has empowered our people on the front line to meet their clients' needs better by providing increased resources, creating a faster pace of change to facilitate product and service innovations and simplifying processes. Our employees are partnering across different businesses and bringing the combined capabilities of RBC to those clients who require more complex solutions. Our people are telling us they feel more enabled to realize our vision of *Always earning the right to be our clients' first choice*. Our senior leaders are closer to our clients both in the field and in all support activities and they are able to provide stronger support to both clients and employees.

- **Processes** – We changed or eliminated a large number of processes to remove redundancy and bureaucracy and make it easier, faster and simpler for clients to do business with us. Whether the processes related to product development, credit approval, problem resolution or simple account opening, the changes we implemented across our business help enhance our clients' experiences.

- **Initiatives** – We launched a series of revenue and cost initiatives in all our businesses and geographic regions during the year to give our clients more choice, better products and faster service while improving our operating leverage (the difference between our rates of revenue growth and non-interest expense growth). The revenue initiatives included improving branch hours and locations, increasing the number of client service staff, developing innovative credit and investment offerings and other measures to enhance our distribution capabilities and products globally. We also improved productivity and implemented numerous cost initiatives such as streamlining head office support areas, consolidating technology and operations groups, and lowering procurement costs with specific targets for which people were accountable.

As a result of these significant changes clients can do business with us more easily, more conveniently and more often. These steps have helped us move closer to achieving our strategic goals, which are: 1) To be the undisputed leader in financial services in Canada; 2) To build on our banking, wealth

## RBC Canadian Personal and Business – Total revenue by business line



management and capital markets platforms in the United States; and 3) To be a premier provider of selected global financial services. We intend to continue to take actions to further meet these goals in 2006 and beyond.

### 2. To what do you attribute the very strong revenue growth in your RBC Canadian Personal and Business segment and do you believe it is sustainable?

We have been able to differentiate ourselves from our competitors with strong revenue growth this year by successfully executing the following three key revenue growth strategies:

- Optimizing our extensive distribution capabilities** – This includes expanding our sales forces and other distribution capabilities, and simplifying our structure, management and compensation programs to make it simpler for our employees to deliver the right product to the right client through the right channel at the right time. We also successfully opened two multi-line insurance outlets adjacent to retail branches in order to provide clients with greater convenience.

- Simplifying processes and structures** – We are making it easier for clients to do business with us by improving processes across our businesses. For example, we are using new technologies to simplify the account opening process for banking and to expand online capabilities for our Canadian insurance customers. Internally, we have streamlined decision-making, resulting in more effective and efficient implementation.

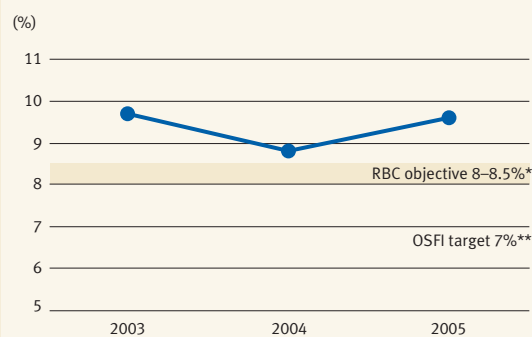
- Focusing on high-return markets** – We introduced new products and services in businesses where we see strong growth potential. For example, we introduced new investment offerings, launched innovative new cards including the RBC Starbucks Duetto *Visa* and the RBC Cathay Pacific *Visa* Platinum cards, and enhanced travel insurance options for seniors. We also continued to provide custom mortgage solutions through our RBC Homeline Plan equity line of credit and introduced targeted offerings to key client groups.

The impact of these initiatives, along with the integration of the Canadian operations of Provident Life and Accident Insurance Company (UnumProvident) acquired in May 2004, can be seen in the segment's strong volume, market share and margin improvements compared to 2004. We intend to continue to focus on these priorities to enhance our leadership position in our key markets.

### 3. Now that your capital ratios have improved significantly and are well above both regulatory levels and your own objectives, what is your capital deployment strategy?

Strong earnings, controlled growth in risk-adjusted assets, active balance sheet management and the timely issuance of capital throughout the year have all contributed to our strong capital position, which is in line with the Canadian industry. In our ongoing capital management decisions we consider a variety of factors, including expectations of investors and debt rating agencies, requirements of our regulators, economic and subsidiary capital needs, our capital position relative to our peers, cost efficiencies of various capital instruments, and the need to maintain flexibility in capital management.

### Tier 1 Capital Ratio



\* For 2006, RBC's objective is 8%+.

\*\* The Office of the Superintendent of Financial Institutions Canada

In our 2006 capital management plan, our goal is to provide a balance between maintaining solid capital ratios and high debt ratings and providing strong returns to our shareholders.

Maintaining high debt ratings is very important to us, and we believe we are well capitalized to underpin our risks and execute our business strategies while maintaining these ratings. We have consistently had strong internal capital generation capabilities and cost-effective access to markets that allow us to manage capital flexibility. This flexibility will help as our business environment, strategies and activities evolve and can also allow us to respond to opportunities and absorb unexpected shocks.

In our 2006 capital management plan, our goal is to provide a balance between maintaining solid capital ratios and high debt ratings and providing strong returns to our shareholders. We plan to remain within our 40 to 50 per cent dividend payout target range and to continue to invest in existing operations with high-growth and return potential. As always, we remain open to acquisition opportunities, but only if they meet our financial, strategic and cultural criteria. We resumed share repurchases in the fourth quarter of 2005, under our normal course issuer

bid program, and may continue to do so in 2006 at least to offset the dilution from employee stock option exercises. We also intend to review the potential for undertaking securitization transactions and similar initiatives enabling efficient balance sheet management. We will continue our disciplined approach to managing growth in risk-adjusted assets in 2006 in order to ensure that our returns thresholds are met. Finally, we will actively manage the structure of our capital through redemptions and issuances so that it remains cost-effective.

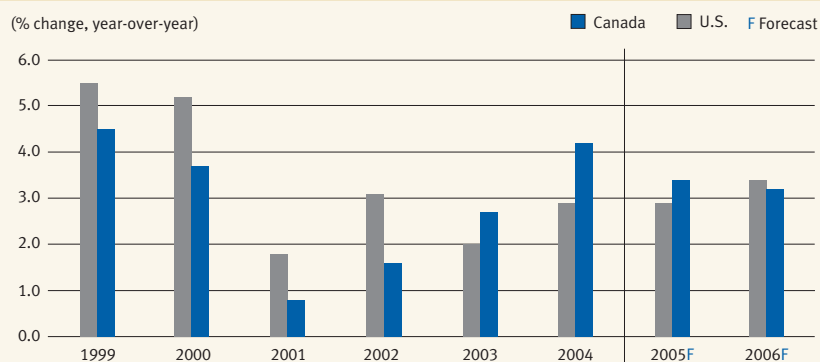
#### 4. What is your economic outlook for North America in 2006?

Growth rate disparities between Canada, the U.S. and other G7 economies are in the process of narrowing. Just as Canadian real GDP growth is accelerating, the U.S. economy is set to slow moderately. We expect real Canadian GDP growth to pick up from 2.9 per cent in 2005 to 3.4 per cent in 2006 and U.S. real GDP growth to slow from 3.4 per cent in 2005 to 3.2 per cent in 2006. Lower

inflation, a more accommodative monetary policy, and sharply higher energy and non-energy commodity prices are behind the expected improvement in Canadian growth. The U.S. economy is expected to slow down because consumers and businesses are expected to begin saving more in response to higher interest rates.

Lower U.S. investment and consumption growth should lead to less borrowing of foreign funds. As a result more funds are expected to remain in lending countries promoting local investment and consumption. We expect improving Canadian growth in 2006 to result in continued rate hikes and the Bank of Canada overnight rate of interest is expected to reach 4 per cent by April 2006. The U.S. federal funds rate has already been rising for over a year and is expected to peak at 4.25 per cent in the last quarter of 2005 and remain at that level in 2006. The rising cost of raw material inputs along with rising wages pushed the U.S. Federal Reserve to act earlier than the Bank of Canada in hiking rates.

## Canadian and U.S. real GDP growth



Source: Statistics Canada, Bureau of Economic Analysis, RBC Financial Group

Longer-term interest rates are also expected to rise in both countries alongside slowly mounting core consumer price index inflation pressures, leading mortgage rates to rise. The hot Canadian and U.S. housing markets are expected to soften as demand shifts lower with higher borrowing costs. Unlike prior real estate cycles, however, an implosion of the real estate market in either country is unlikely since construction has only kept pace with demand as speculative construction frenzy in both countries was avoided.

Given our outlook, several offsetting factors should keep the value of the U.S. dollar trading in a narrow range.

Firstly, less borrowing of foreign funds by the U.S. is expected to limit further weakening of the U.S. dollar. At the same time, however, the U.S. dollar could come under downward pressure with expectations of continued interest rate hikes in Canada and other G7 countries offsetting hikes in U.S. short-term interest rates. Furthermore, the Canada-U.S. exchange rate will also be affected by weaker commodity prices. The Canadian dollar is, therefore, expected to fluctuate in a range of 82 to 85 U.S. cents. Other currencies are also expected to stabilize relative to the U.S. dollar in 2006 giving exporters in these countries a reprieve as they continue to adjust to intense pressure from Chinese exports.

The risks surrounding our North American economic outlook are unusually widespread. The war in Iraq and the threat of civil war if the U.S. pulls out early, increasing friction between China and Japan, not to mention the nuclear proliferation threat coming from North Korea could all lead to another bout of higher oil prices, lower demand, lower interest rates, rising inflation and perhaps a period of stagflation. For now, however, our base case consists of a converging business cycle between G7 economies, particularly between Canada and the U.S.

Today, leading corporations understand that they must balance the needs of all their stakeholders, not just their shareholders. This concept is now known worldwide as “corporate responsibility” or “sustainability.”

We believe there is such a strong link connecting our stakeholders – our clients, employees, shareholders, communities and suppliers – that to ignore one is to imperil them all. We believe this balance is not just possible, it is imperative for our future success.

We define corporate responsibility as operating with integrity at all times, sustaining our company’s long-term viability while contributing to the present and future well-being of all of our stakeholders.

In doing so, we strive to take active responsibility for the daily choices that our company faces: how should we best structure and govern our company? How should we best serve our clients, in terms of ethics, privacy and service? How should we attract the best talent

and motivate our employees? How does our company interact with the communities in which we do business? What impact does our business have on the natural environment? Where can we mitigate or tolerate risk in our supply chain? How can we grow our company in a sustainable way?

We believe that companies who strive to balance the needs of all their stakeholders will outperform their competitors and provide the best return to investors. In fact, we have a

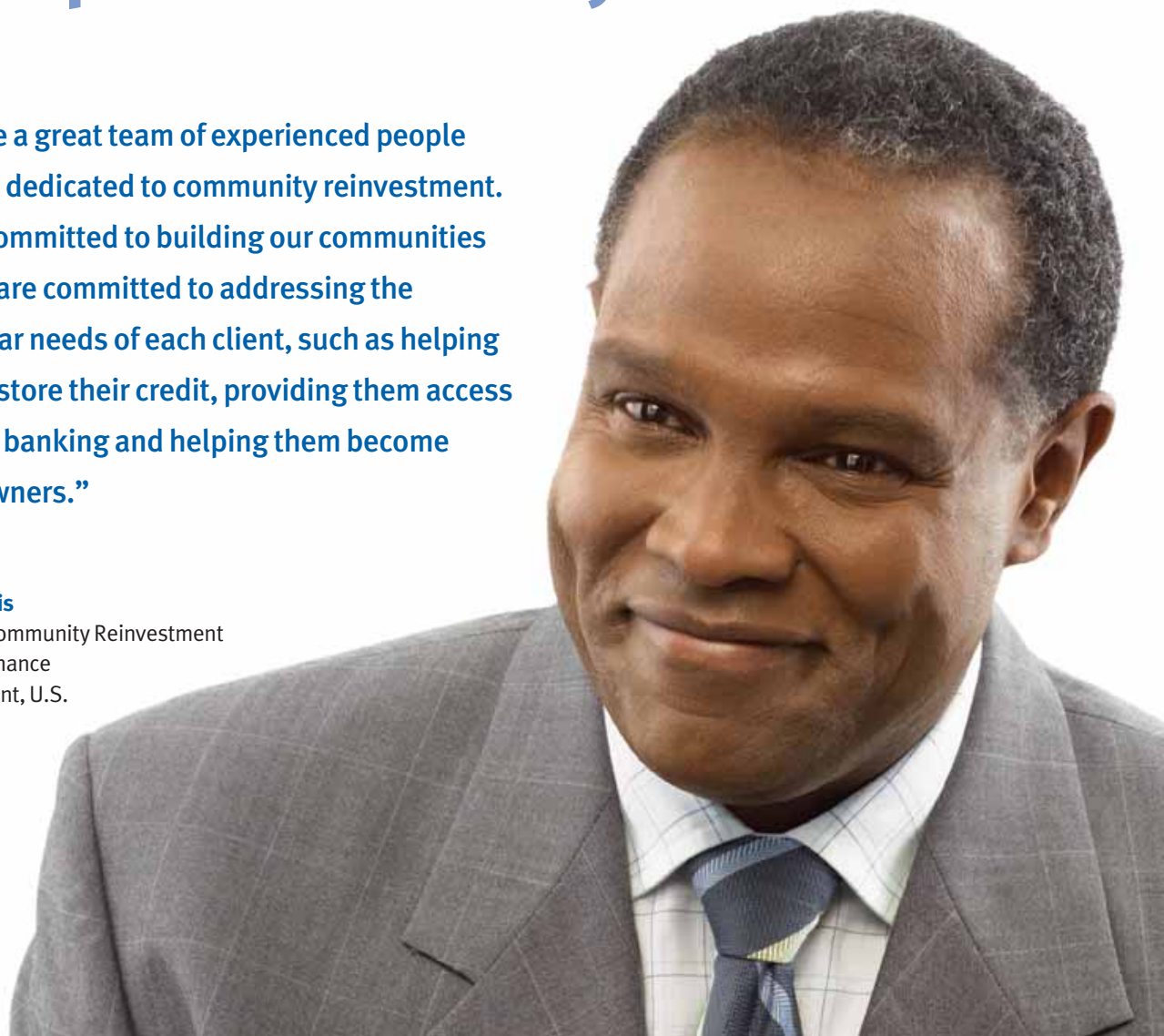
**Contributing to the present and future well-being of all our stakeholders**

# Corporate responsibility

**“We have a great team of experienced people who are dedicated to community reinvestment. We’re committed to building our communities and we are committed to addressing the particular needs of each client, such as helping them restore their credit, providing them access to basic banking and helping them become homeowners.”**

**Kevin Harris**

Director, Community Reinvestment  
Act Performance  
Rocky Mount, U.S.



A company's actions speak louder than its words. Our approach to corporate responsibility comes to life in the way we operate our business, support economic prosperity and environmental sustainability, and contribute to communities.

## Awards and recognition

A company's reputation is built in part by what people say about it. We feel privileged to have received these honours for our corporate responsibility efforts in 2005.

- Number 1 in Corporate Social Responsibility "Banking" category (*Report on Business Magazine*).
- Most Respected Corporation in Canada for "Corporate Social Responsibility" (10th consecutive year in annual KPMG/Ipsos Reid poll).
- Canada's Best 50 Corporate Citizens (Corporate Knights).



long history of corporate responsibility of which we are justifiably proud.

### Business integrity

We have implemented a wide range of policies and practices to ensure we operate with integrity. Some of these represent sound "first principles" for any business, such as our attention to governance, privacy, diversity and ensuring we remain an employer of choice. Others are specific to our role as a financial institution, such as how we manage risk and provide basic banking services.

### Economic prosperity

We make an economic impact by creating employment and a well-trained workforce, paying our fair share of taxes, and purchasing goods and services responsibly. As a financial services company, we also contribute to economic prosperity by providing access to credit for small business, supporting community economic development initiatives, and supporting innovation and entrepreneurship.

## Indices for socially responsible investors

For investors who wish to express their values through ethical investment decisions, research firms all around the world are increasingly offering solid, third-party analysis of which companies have a positive or negative effect on society and the environment. We are considered a socially responsible investment by a number of significant indices worldwide, including:

- Dow Jones Sustainability World Index, recognizing financial, social and environmental leaders (sixth consecutive year).
- Jantzi Social Index.
- FTSE4Good Index (fifth consecutive year).
- Climate Leadership Index 2005 (based on a submission to the Carbon Disclosure Project).
- Ethibel Investment Register and Pioneer Sustainability Index.
- 2005 ECPI Ethical Index.

### Environmental sustainability

We believe that sustained economic growth and a healthy environment are inextricably linked. We take a leading industry role in supporting and advocating sustainable business practices in terms of providing financial services, especially credit, as well as minimizing our environmental footprint in our own facilities and operations.

### Community engagement

We believe in building prosperity by supporting a broad range of causes. In 2005, we contributed more than \$65 million to community causes worldwide, through donations of more than \$40.6 million, and an additional \$25 million in the support and sponsorship of community events and national organizations. Our employees and pensioners also make an enormous contribution as volunteers, sharing their financial and business knowledge, time and enthusiasm with thousands of community groups.

### Our approach to non-financial reporting

For more than 500 years, the traditional method of reporting financial results has been the “single bottom line” approach, which takes into account a company’s assets and liabilities, with the shareholder as the company’s main focus.

But since the 1990s, there has been an emerging recognition that there are “hidden” liabilities and assets on a company’s balance sheet. Or, to put it another way, shareholders are recognizing that there is more to a company than meets the eye in its quarterly financials.

Increasingly, companies are being asked by investors, analysts and clients to report on their environmental and social performance. This non-financial or sustainability reporting is an emerging discipline, with a great deal of debate among various stakeholders about which performance indicators are the most relevant.

As such, we have not formally adopted a single approach to non-financial reporting; rather, we pay attention to a number of guidelines, frameworks and

best practices, and regularly consult with experts to help us understand emerging trends. We have committed to taking a leadership role in helping develop non-financial reporting standards through our work with the Global Reporting Initiative.

Our non-financial reporting can be found in:

- Our Annual Report and Proxy Statements, which cover our corporate profile, highlights of our financial performance, as well as our approach to risk management, corporate governance and disclosure of executive compensation.
- Our annual Corporate Responsibility Report, which gives a high-level overview of our social and environmental performance relative to clients, employees, communities and the economy. It includes a description of our business practices, as well as our approach to providing financial services. In Canada, this publication includes our Public Accountability Statement, outlining our contribution to society and the economy, as required by Canadian law.

## Corporate responsibility firsts

Our long history of corporate responsibility contains many significant firsts. In 1980, we embedded corporate responsibility in our first formal employee Code of Conduct. Today, it is one of our Code's eight *Guiding Principles*. Here are some highlights from our other firsts:

- |   |   |   |
|---|---|---|
| <p><b>1891</b> Our first donation on record, \$250 to the Springhill Mine accident relief fund.</p>           | <p><b>1979</b> We establish an Equal Employment Opportunity program.</p>                                      | <p><b>2003</b> We are the first Canadian bank to adopt the Equator Principles, to assess the social and environmental impacts of large-scale project finance deals.</p> |
| <p><b>1902</b> We hire our first woman: Jennie Moore from Vancouver.</p>                                      | <p><b>1991</b> We are the first chartered bank in Canada to publish a privacy code.</p>                       | <p><b>2004</b> We are a founding member of the Canadian Aboriginal and Minority Supplier Council.</p>   |
| <p><b>1929</b> We start our corporate art collection.</p>   | <p><b>1992</b> We are the first North American signatory to the United Nations policy on the environment.</p> | <p><b>2005</b> We are the first Canadian bank to be named one of the "Global 100 Most Sustainable Corporations in the World."</p>                                       |
| <p><b>1943</b> We publish the first issue of Royal Bank Monthly Letter, devoted to topics of citizenship.</p> | <p><b>1992</b> We are the first bank in Canada to provide Braille statements.</p>                             |   |
| <p><b>1947</b> We are the first sponsor of the Canadian Olympic Association.</p>                              | <p><b>2000</b> We are the first Canadian bank to be named to the Dow Jones Sustainability World Index.</p>    |   |

- Our online Sustainability Report (on [rbc.com](http://rbc.com)), which provides the most detailed information on sustainability performance indicators that have been deemed significant by researchers and analysts, and is organized to align with the Sustainability Reporting Guidelines of the Global Reporting Initiative. This online report is updated on an ongoing basis, ensuring our corporate responsibility efforts are as

transparent as possible while still respecting the privacy of our clients and preserving proprietary marketing information.

- A number of our sites on [rbc.com](http://rbc.com) provide ongoing detail about topics that fall under the corporate responsibility umbrella, including Governance, Human Resources (Careers), Environment, Purchasing, Donations and Sponsorships.

For a full overview of our approach to corporate responsibility, see [rbc.com](http://rbc.com).