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Caution regarding forward-looking statements

Royal Bank of Canada, from time to time, makes written and oral forward-looking statements, included in this Annual Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders and in other communications, which are made pursuant to the "safe harbor" provisions of the United States *Private Securities Litigation Reform Act of 1995*. These forward-looking statements include, among others, statements with respect to the bank's objectives for 2002, and the medium and long terms, and strategies to achieve those objectives, as well as statements with respect to the bank's beliefs, plans, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "anticipate," "estimate," "expect," "intend," "plan," and words and expressions of similar import are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. The bank cautions readers not to place undue reliance on these statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the

strength of the local economies within Canada in which the bank conducts operations; the strength of the United States economy and the economies of other nations in which the bank conducts significant operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada and the Board of Governors of the Federal Reserve System in the United States; changes in trade policy; the effects of competition in the markets in which the bank operates; inflation; capital market and currency market fluctuations; the timely development and introduction of new products and services by the bank in receptive markets; the impact of changes in the laws and regulations regulating financial services (including banking, insurance and securities); changes in tax laws; technological changes; the ability of the bank to complete strategic acquisitions and to integrate acquisitions; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and saving habits; and the bank's anticipation of and success in managing the risks implicated by the foregoing.

The bank cautions that the foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions with respect to the bank, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The bank does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the bank.

/ Management's discussion and analysis

Management evaluates the bank's performance on a reported basis in accordance with United States generally accepted accounting principles (U.S. GAAP). Management also evaluates the bank's performance on a core, a cash and a core cash basis.

Items presented on a core basis exclude special items that are viewed by management as items that do not arise as part of normal day-to-day business operations or that are unusual in nature and that could potentially distort the analysis of trends. The special items for 2001 are shown in [Table 4 on page 20](#). The special items total \$204 million and include gains on dispositions, a U.S. retail banking restructuring charge, income tax related to these items, and a tax expense resulting from the enactment of a reduction in tax rates. There were no special items for 2000.

Overview

Net income

(C\$ millions, except percentage amounts)	% change	2001	2000
Reported net income (1)	10%	\$ 2,435	\$ 2,208
Impact of special items (2)		(204)	–
Core net income	1%	\$ 2,231	\$ 2,208
Reported net income (1)	10%	\$ 2,435	\$ 2,208
Amortization of goodwill and other intangibles (after-tax)	225%	286	88
Cash net income	19%	2,721	2,296
Impact of special items (2)		(204)	–
Core cash net income	10%	\$ 2,517	\$ 2,296

(1) As reported on the consolidated statement of income.

(2) Special items are shown in [Table 4 on page 20](#).

As shown in the tables above, reported net income in 2001 was up 10% from 2000 (4% on a per share basis). Excluding the special items, core net income was up 1% (down 5% per share). The bank issued 83 million common shares in 2001 (72 million net of common share repurchases), most of which were in connection with the acquisition of Centura Banks, Inc., in June 2001, resulting in lower or negative growth rates for earnings per share as compared to net income.

Items presented on a cash basis are calculated by adding back to reported net income the after-tax amount of amortization of goodwill and other intangibles. The amortization of goodwill reduced reported diluted earnings per share (EPS) by \$.39 in 2001 (\$.13 in 2000), while the amortization of intangibles reduced reported diluted earnings per share by \$.06 (\$.02 in 2000). On November 1, 2001, the bank adopted the new accounting standards for business combinations, whereby goodwill is no longer amortized although other intangibles continue to be amortized.

Items presented on a core cash basis exclude special items and are calculated by adding back to reported net income the after-tax amount of amortization of goodwill and other intangibles.

The bank's fiscal year-end is October 31. All dollar amounts in management's discussion and analysis are in Canadian dollars unless otherwise specified.

Diluted earnings per share (EPS)

(C\$, except percentage amounts)	% change	2001	2000
Reported EPS (1)	4%	\$ 3.55	\$ 3.40
Impact of special items (2)		(.32)	–
Core EPS	(5)%	\$ 3.24	\$ 3.40
Reported EPS (1)	4%	\$ 3.55	\$ 3.40
Amortization of goodwill and other intangibles (after-tax)	200%	.45	.15
Cash EPS	13%	4.00	3.55
Impact of special items (2)		(.32)	–
Core cash EPS	4%	\$ 3.68	\$ 3.55

(1) As reported on the consolidated statement of income.

(2) Special items are shown in [Table 4 on page 20](#).

The analysis and discussion that follows on [pages 19 to 55](#) contains comparisons to 2000 that are generally based on the 2001 core numbers (i.e., excluding special items) and where indicated, on core cash earnings. The consolidated financial statements on pages 57 to 84 are reported in accordance with U.S. GAAP.

As shown in Table 1 below, international revenues were \$4.2 billion or 28% of total revenues, up from \$1.9 billion or 16% in 2000. The U.S. acquisitions resulted in U.S. revenues increasing to \$2.9 billion or 20% of total revenues, from \$.8 billion or 7% in 2000.

TABLE 1 Earnings by geographic segment

(C\$ millions, taxable equivalent basis)	2001			2000		
	Canada	International (1)	Total	Canada	International (1)	Total
Net interest income	\$ 5,324	\$ 1,205	\$ 6,529	\$ 4,796	\$ 511	\$ 5,307
Non-interest revenue	5,210	2,945	8,155	5,277	1,403	6,680
Gross revenues	10,534	4,150	14,684	10,073	1,914	11,987
Provision for credit losses	757	362	1,119	703	(12)	691
Non-interest expenses	6,355	3,286	9,641	6,470	1,158	7,628
Income taxes (2)	1,450	39	1,489	1,354	106	1,460
Net income	\$ 1,972	\$ 463	\$ 2,435	\$ 1,546	\$ 662	\$ 2,208
Core net income (3)	\$ 1,711	\$ 520	\$ 2,231	\$ 1,546	\$ 662	\$ 2,208
Cash net income (4)	\$ 2,087	\$ 634	\$ 2,721	\$ 1,620	\$ 676	\$ 2,296
Core cash net income (5)	\$ 1,826	\$ 691	\$ 2,517	\$ 1,620	\$ 676	\$ 2,296

(1) Includes United States gross revenues of \$2,882 million (2000 – \$832 million).

(2) Includes non-controlling interest and taxable equivalent adjustment.

(3) Excludes special items in 2001, which are described in [Table 4 on page 20](#). There were no special items in 2000.

(4) Cash net income is computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.

(5) Core cash net income is cash net income excluding special items in 2001, which are described in [Table 4 on page 20](#). There were no special items in 2000.

Outlook

Given the expectations of continued economic weakness in the first half of calendar 2002, the bank is targeting growth in core cash diluted earnings per share of 5–10% and a core cash return on common equity of 17–19% in fiscal 2002.

Financial priorities

Revenue growth and diversification

In 2001, core (operating) revenues increased 19%, substantially higher than the bank's objective of growth over 10%, primarily reflecting acquisitions. Excluding acquisitions, operating revenues were up 3%. Detailed discussion follows on [pages 32 to 35](#).

Cost control

Core non-interest expenses increased 25%, reflecting acquisitions, costs of Stock Appreciation Rights and certain significant expenses. Excluding these, core non-interest expenses were down 2%. A full description is provided on [pages 36 to 38](#).

Balance sheet and capital management

There was significant capital activity undertaken this year, partially reflecting acquisitions. At October 31, 2001, the Tier 1 capital ratio was 8.7%, up from 8.6% a year ago, while the Total capital ratio was 11.8%, down from 12% (all based on Canadian GAAP financial information). Both ratios met the bank's medium-term (3–5 year) capital ratio goals of 8% for Tier 1 capital and 11–12% for Total capital. More details are provided on [pages 39 to 42](#).

Strong credit quality

Deterioration in the U.S. telecommunication sector contributed to higher provisions for credit losses and nonaccrual loans this year. The allocated specific provision for credit losses ratio was .52% in 2001 compared to .31% in 2000, while the nonaccrual loans ratio was 1.36% versus 1.00% in 2000. During the year, net charge-offs were .55% of average loans compared to .42% in 2000. Detailed discussion and tables are provided on [pages 43 to 49](#).

Economic Profit

The bank measures the Economic Profit of its businesses, in addition to using a variety of other traditional measures, such as return on common equity and growth in earnings. Economic Profit measures each business segment's cash operating earnings after providing for the cost of capital committed to the segment.

Cash operating earnings is net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles. The equity capital charge is derived by applying the cost of common equity, which is management's proxy for the after-tax return required by shareholders for the use of their capital, to the amount of average common equity. The estimated cost of common equity is calculated based on the Capital Asset Pricing Model (CAPM). As such, the bank's cost of common equity changes as the factors of this model change, namely the risk-free rate, the bank's beta and the market risk premium. Furthermore, the estimated cost of equity is reviewed annually. Based on the decline in longer-term bond yields since the last review, the cost of common equity was reset mid-year to 12.5%. The average cost of common equity in 2001 was 12.9%.

To create shareholder value, one must generate cash operating earnings in excess of the common equity capital charge. Positive Economic Profit adds to shareholder value while negative Economic Profit erodes shareholder value.

Economic Profit measures changes in value created for the shareholders over time, and is an effective planning tool to focus attention on shareholder value growth opportunities. The objectives are to:

- Increase cash operating earnings without tying up more capital
- Target investments in projects that yield positive economic returns
- Improve overall effectiveness of invested capital through re-allocation from less effective uses
- Improve the risk-return profiles of the lines of business

Economic Profit analysis strengthens risk management discipline, as business segments are attributed capital based on their credit, market, operational and other risks. This discipline has resulted in controlled growth and a focus on returns commensurate with risks. Furthermore, Economic Profit encourages redistribution of resources to stronger performing businesses from businesses that are weaker performers.

As shown in Table 2 below, the bank had Economic Profit of \$583 million in 2001. The capital charge grew at a faster rate than cash operating earnings due, in part, to issuance of common shares largely as part of the share exchange for the acquisition of Centura Banks, Inc. The Economic Profit amounts for the business segments in 2001 and 2000 are shown in the tables on [pages 22, 24, 26, 28 and 30](#).

TABLE 2	Economic Profit ⁽¹⁾				
(C\$ millions, except percentage amounts)	2001	2000	1999	1998	1997
Net income available to common shareholders	\$ 2,300	\$ 2,074	\$ 1,568	\$ 1,627	\$ 1,523
Adjustment for special items (after-tax)	(204)	–	88	17	(7)
Adjustment for amortization of goodwill and other intangibles (after-tax)	286	88	67	66	63
Cash operating earnings	2,382	2,162	1,723	1,710	1,579
Capital charge	(1,799)	(1,448)	(1,386)	(1,249)	(1,204)
Economic Profit ⁽¹⁾	\$ 583	\$ 714	\$ 337	\$ 461	\$ 375
Economic Profit growth	(18)%	112%	(27)%	23%	188%
Average common equity	\$ 13,899	\$ 10,725	\$ 10,268	\$ 9,255	\$ 8,303
Cost of common equity	12.9%	13.5%	13.5%	13.5%	14.5%

(1) Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles) less a charge for the cost of common equity.

Line of business results

Overview

Table 3 below shows the bank's reported results by business segment in 2001. These results include several special items, shown in Table 4 and described below. Table 5 on page 21 shows the bank's core results

(results excluding special items shown in Table 4) by business segment in 2001.

TABLE 3 Reported results by business segment

(C\$ millions, taxable equivalent basis, except per share and percentage amounts)	2001						2000
	Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Transaction Processing	Total (1)	Total
Net interest income	\$ 5,347	\$ 206	\$ 384	\$ 429	\$ 150	\$ 6,529	\$ 5,307
Non-interest revenue	1,839	336	3,040	2,352	563	8,155	6,680
Gross revenues	7,186	542	3,424	2,781	713	14,684	11,987
Provision for credit losses	732	–	2	407	(2)	1,119	691
Non-interest expenses	4,216	375	2,691	1,804	476	9,641	7,628
Income taxes	926	(6)	223	200	95	1,350	1,412
Non-controlling interest and taxable equivalent adjustment	16	–	–	21	–	139	48
Net income	\$ 1,296	\$ 173	\$ 508	\$ 349	\$ 144	\$ 2,435	\$ 2,208
Cash net income (2)	\$ 1,376	\$ 188	\$ 626	\$ 390	\$ 152	\$ 2,721	\$ 2,296
As a % of total	51%	7%	23%	14%	6%	100%	100%
% growth over prior year	22%	83%	43%	(26)%	7%	19%	28%
Return on common equity	18.5%	20.0%	27.0%	9.6%	29.4%	16.6%	19.3%
Cash return on common equity (2)	19.7%	21.9%	33.5%	11.0%	31.1%	18.6%	20.2%
Economic Profit (3)	\$ 456	\$ 72	\$ 97	\$ (44)	\$ 85	\$ 583	\$ 714
Diluted earnings per share						\$ 3.55	\$ 3.40
Cash diluted earnings per share (2)						\$ 4.00	\$ 3.55

- (1) The difference between the total and the business segments presented represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.
- (2) Cash net income, cash return on common equity and cash diluted earnings per share are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.
- (3) Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles) less a charge for the cost of common equity employed.

Table 4 below shows the special items in 2001. These increased diluted earnings per share by \$.32 in 2001. There were three items that increased non-interest revenues – a \$89 million gain on the formation of the Moneris Solutions merchant card processing joint venture with the Bank of Montreal, a \$43 million gain on sale of the Group Retirement Services group pension benefits administration business and a \$313 million gain on sale of RT Capital Management's institutional

money management business. Non-interest expenses were increased by a \$91 million restructuring charge related to integration and cost-saving initiatives in the U.S. retail banking platform. Income taxes were increased by a tax expense of \$101 million reflecting a writedown of deferred tax assets due to a reduction in tax rates.

The business segment discussions on pages 21 to 31 refer to core amounts (i.e., excluding the special items shown in Table 4) for 2001.

TABLE 4 Special items affecting business segment results in 2001 (1)

(C\$ millions, taxable equivalent basis, except per share amounts)	Personal & Commercial Banking	Wealth Management	Corporate & Investment Banking	Total
Non-interest revenue				
Gain on formation of Moneris Solutions joint venture	\$ 89	\$ –	\$ –	\$ 89
Gain on sale of Group Retirement Services	7	36	–	43
Gain on sale of RT Capital Management	–	313	–	313
	96	349	–	445
Non-interest expenses				
U.S. retail banking restructuring charge	91	–	–	91
Total impact (pre-tax)	5	349	–	354
Income taxes				
On items listed above	(21)	70	–	49
Enactment of change in tax rates (2)	45	5	27	101
Total impact (after-tax)	\$ (19)	\$ 274	\$ (27)	\$ 204
Impact on diluted earnings per share				\$.32

- (1) There were no special items in the Insurance or Transaction Processing segments in 2001 and no special items at all in 2000.
- (2) Included in the total \$101 million is \$24 million related to other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

Core line of business results

Overview

Table 5 below shows core results by business segment for 2001.

Personal & Commercial Banking produced a core cash return on common equity (ROE) of 20.0% and generated 55% of the bank's core cash net income in 2001. Core cash net income increased 24% from 2000, as explained on [page 22](#). RBC Centura (acquired on June 5, 2001) recorded core net income of \$11 million and core cash net income of \$69 million in 2001. RBC Prism Mortgage (acquired in April 2000) had core net income of \$43 million, up from a net loss of \$3 million in 2000, and core cash net income of \$53 million compared to no cash earnings in 2000.

Insurance produced a cash ROE of 21.9% and generated 7% of the bank's core cash net income in 2001. Cash net income increased 83% from 2000, as explained on [page 24](#). RBC Liberty Insurance (acquired on November 1, 2000) contributed core net income and core cash net income of \$29 million and \$39 million, respectively, in 2001.

Wealth Management produced a core cash ROE of 18.4% and generated 14% of the bank's core cash net income in 2001. Core cash net income declined by 19% as discussed on [page 26](#). RBC Dain Rauscher's Private Client Group and fixed income divisions (acquired on January 10, 2001) had a core net loss of \$72 million in 2001, reflecting weak client trading volumes in the full-service brokerage industry this year, retention compensation costs of \$88 million and goodwill amortization expenses of \$40 million. Core cash net loss was \$33 million.

Corporate & Investment Banking produced a core cash ROE of 11.8% and generated 17% of the bank's core cash net income in 2001. Core cash net income declined 21% as explained on [page 28](#). Dain Rauscher Wessels (acquired on January 10, 2001) had a core net loss of \$88 million due to a weak capital markets environment in 2001, retention compensation costs of \$88 million and goodwill amortization expenses of \$27 million. Core cash net loss was \$61 million.

Transaction Processing produced a cash ROE of 31.1% and generated 6% of the bank's core cash net income in 2001. Cash net income increased 7%, as explained on [page 30](#).

The bank allocates capital to its business segments based on their credit, market, operational and other risks. Capital in each business segment has increased over last year due to additional business activity in each segment and several acquisitions made in 2001. The increases in capital attributed to goodwill recorded on acquisitions during the year negatively affected ROE and cash ROE for all of the operating segments. Capital increased by \$1.6 billion in Personal & Commercial Banking, \$1.0 billion in Insurance, \$1.0 billion in Wealth Management, \$1.0 billion in Corporate & Investment Banking and \$1.1 billion in Transaction Processing during 2001.

TABLE 5 Core results by business segment ⁽¹⁾

(C\$ millions, taxable equivalent basis, except per share and percentage amounts)	2001						2000
	Personal & Commercial Banking	Insurance	Wealth Management	Corporate & Investment Banking	Transaction Processing	Total ⁽²⁾	Total
Net interest income	\$ 5,347	\$ 206	\$ 384	\$ 429	\$ 150	\$ 6,529	\$ 5,307
Non-interest revenue	1,743	336	2,691	2,352	563	7,710	6,680
Gross revenues	7,090	542	3,075	2,781	713	14,239	11,987
Provision for credit losses	732	–	2	407	(2)	1,119	691
Non-interest expenses	4,125	375	2,691	1,804	476	9,550	7,628
Income taxes	902	(6)	148	173	95	1,200	1,412
Non-controlling interest and taxable equivalent adjustment	16	–	–	21	–	139	48
Net income	\$ 1,315	\$ 173	\$ 234	\$ 376	\$ 144	\$ 2,231	\$ 2,208
Cash net income ⁽³⁾	\$ 1,395	\$ 188	\$ 352	\$ 417	\$ 152	\$ 2,517	\$ 2,296
As a % of total	55%	7%	14%	17%	6%	100%	100%
% growth over prior year	24%	83%	(19)%	(21)%	7%	10%	22%
Return on common equity	18.8%	20.0%	11.9%	10.5%	29.4%	15.1%	19.3%
Cash return on common equity ⁽³⁾	20.0%	21.9%	18.4%	11.8%	31.1%	17.1%	20.2%
Economic Profit ⁽⁴⁾	\$ 456	\$ 72	\$ 97	\$ (44)	\$ 85	\$ 583	\$ 714
Diluted earnings per share						\$ 3.24	\$ 3.40
Cash diluted earnings per share ⁽³⁾						\$ 3.68	\$ 3.55

(1) Core results in 2001 exclude special items detailed in [Table 4 on page 20](#). There were no special items in 2000.

(2) The difference between the total and business segments presented represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

(3) Cash net income, cash return on common equity and cash diluted earnings per share are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles.

(4) Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the after-tax impact of special items and amortization of goodwill and other intangibles) less a charge for the cost of common equity employed.

Personal & Commercial Banking

Business profile

Personal & Commercial Banking serves over 11 million individuals, small and medium-sized businesses, and commercial clients in Canada, the U.S., the Caribbean and The Bahamas. Our distribution capabilities include a network of branches, business banking centres and other sales units, mobile sales representatives, automated banking machines, and telephone and Internet banking channels. We deliver a wide range of financial services which include deposit accounts, investments and mutual funds, credit and debit cards, business and personal loans, and residential and commercial mortgages, all supported by financial advice.

Strategy

Personal & Commercial Banking's objective is to grow profitable relationships with each business and personal client by:

- Creating a tailored client experience
- Reducing costs
- Effectively managing risk and capital

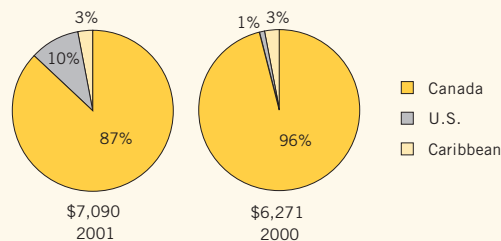
We plan to achieve our objectives through the following strategic initiatives:

- Drive revenue growth by increasing client contact and service differentiation, maximizing client retention and leveraging client segmentation with a life event focus
- Accelerate U.S. revenue and earnings growth through continued development of U.S. capabilities and expansion in targeted personal and commercial markets
- Sustain our cost management focus, offsetting volume increases and new initiatives with cost reductions
- Strengthen risk mitigation focus, resulting in earnings growth and reduced income volatility through "best in class" operational and credit risk processes

Substantial growth in U.S. revenues

With the addition of RBC Centura and RBC Prism Mortgage, Personal & Commercial Banking's U.S. revenues have increased from 1% of total revenues in 2000 to 10% in 2001.

CORE REVENUES BY GEOGRAPHY (C\$ millions, taxable equivalent basis)



Core financial performance (1)

Personal & Commercial Banking's core cash net income was up 24%, while core net income was up 18% from 2000. The acquisitions of RBC Centura and RBC Prism Mortgage partially contributed to the growth, without which core cash net income and core net income would both have been up 13%.

Core revenues grew 13% and core non-interest expenses grew 12% from last year. Without RBC Centura, core revenues would have been up 7%, substantially outpacing a 3% growth in core expenses. The core efficiency ratio improved 50 basis points to 58.2% and the operating efficiency ratio improved 30 basis points to 58.1%.

Economic Profit was \$456 million, core cash ROE was 20.0% and core ROE was 18.8%. Economic Profit, core cash ROE and core ROE reflected \$1.6 billion of additional average common equity attributed to the segment during 2001, of which \$900 million related to goodwill arising from the acquisition of RBC Centura.

Core results (1)

(C\$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Net interest income	14%	\$ 5,347	\$ 4,705
Non-interest revenue	11	1,743	1,566
Gross revenues	13	7,090	6,271
Provision for credit losses			
Allocated specific	23	662	539
Allocated general and unallocated	(36)	70	110
Total	13	732	649
Non-interest expenses	12	4,125	3,684
Net income before income taxes	15	2,233	1,938
Income taxes	11	902	812
Non-controlling interest and taxable equivalent adjustment	45	16	11
Net income	18%	\$ 1,315	\$ 1,115
Cash net income	24%	\$ 1,395	\$ 1,124
Cash net income as a % of total bank cash net income	600 bp	55%	49%
ROE	(170)bp	18.8%	20.5%
Cash ROE	(60)bp	20.0%	20.6%
Economic Profit	27%	\$ 456	\$ 360
Efficiency ratio	(50)bp	58.2%	58.7%
Operating efficiency ratio (2)	(30)bp	58.1%	58.4%
Average assets	10%	\$ 143,000	\$ 129,700
Average loans	8	135,400	125,700
Average deposits	13	111,400	98,900
Average common equity	31	6,700	5,100
Number of employees (full-time equivalent)	10	34,849	31,610

(1) Excluding special items in 2001 detailed in Table 4 on page 20.

(2) Operating efficiency ratio is defined on page 92.

Outlook for 2002

The slowing economy is likely to affect personal and business loan and deposit volumes in 2002. However, with the inclusion of a full year of results for RBC Centura, and our initiatives to drive revenue growth as outlined in our strategy, we anticipate achieving solid revenue growth in 2002. At the same time, we are committed to ongoing cost-saving initiatives such as eliminating process duplications and inefficiencies, strengthening electronic and other lower-cost delivery capabilities and optimizing the physical branch network to further reduce the efficiency ratio. Overall, our goal is for growth in cash net income in 2002. We have also undertaken several risk mitigation initiatives, including strengthening credit and behavioural scoring, tightening collection processes and optimizing credit policies and processes which we expect will limit asset quality deterioration next year.

Strategy by division

Canada

Operating in Canada under the RBC Royal Bank brand, the Personal & Commercial Banking business serves individuals, small and medium-sized businesses, and commercial clients in all provinces and territories. We offer a wide range of financial services and advice, as detailed in our business profile on [page 22](#), and products and expertise in specialized areas such as foreign exchange, venture capital financing and financial planning.

We also provide individual and business clients with a full choice of Visa credit card products, debit cards and other smart card applications. Through Moneris Solutions, a 50/50 joint venture with Bank of Montreal, we provide merchants with credit and debit card acceptance services, including rental of point-of-sale terminals and Internet-secure electronic transaction solutions.

Our goal is to grow profitable relationships with each one of our business and personal clients by using our expertise in client relationship management, data warehousing and predictive modelling. These enable us to tailor client experiences with customized marketing offers and financial advice, and drive revenue growth by selling, cross-selling and up-selling.

We will continue to eliminate duplication and other cost inefficiencies, and look for opportunities to strengthen electronic and other lower-cost delivery capabilities. We are also continuing our focus on the management of credit and operational risk.

United States

Acquired in June 2001, RBC Centura serves as the focal point of our personal and commercial banking businesses in the U.S. Headquartered in Rocky Mount, North Carolina, RBC Centura serves individual and business clients in the southeastern U.S. Other U.S.-based personal and commercial banking businesses with links to RBC Centura include RBC Prism Mortgage, a Chicago-based national retail mortgage originator, and RBC Builder Finance, a Houston-based financing company for home builders and developers.

We are focused on expanding our business in the U.S. through both organic growth and selective niche acquisitions.

Our medium- to long-term priorities include:

- Accelerated introduction of sales and marketing initiatives
- Segmented approach to personal and commercial market growth
- Expansion of niche national lines of business such as builder finance and residential mortgages
- Realizing synergies from functional integration and cross-selling opportunities across the bank's entire platform
- Selective acquisitions in targeted product and geographic markets

Caribbean and The Bahamas

Operating under the brand name RBC Royal Bank of Canada, we provide a broad range of personal and commercial banking products and services to individual and business clients in The Bahamas, Barbados, the Cayman Islands and Eastern Caribbean Islands through a network of branches and automated banking machines.

Core financial performance by division

The domestic business showed core revenue growth of 3% compared to last year. Higher deposit volumes and wider spreads on loans and credit cards were partially offset by deposit spread compression and lower lending volumes. Average residential mortgage balances increased 3% in 2001, as interest rate reductions during the year encouraged home purchases.

Core results (1)

(C\$ millions, taxable equivalent basis)	% change	2001	2000
Gross revenues	3%	\$ 6,179	\$ 5,990
Average residential mortgages	3	64,800	62,900
Average personal loans	4	24,500	23,600
Average personal deposits	1	72,900	72,500
Average business loans	(2)	36,000	36,800
Average business deposits	26	28,100	22,300
Average card balances	13	6,000	5,300
Card spending volumes	4	26,300	25,300
Number of:			
Employees (full-time equivalent)	–	29,558	29,430
Automated banking machines	(5)	4,236	4,465
Branches	(1)	1,125	1,141
Online clients	48	1,876,358	1,264,400

(1) Excluding special items in 2001 detailed in [Table 4 on page 20](#).

The U.S. business reflected a full year of RBC Prism Mortgage's results (compared to just over 6 months in 2000) and 5 months of results for RBC Centura. Without RBC Centura, revenue growth for RBC Prism Mortgage would have been 354% in 2001, reflecting not only the inclusion of a full year of results, but also significant growth in mortgage originations. RBC Prism Mortgage accounted for virtually all of the mortgage origination volume growth in 2001. Growth in average balances largely reflects the addition of RBC Centura.

Core results

(C\$ millions, taxable equivalent basis)	% change	2001	2000
Gross revenues	976%	\$ 678	\$ 63
Average residential mortgages	433	1,600	300
Average personal loans	n.m.	1,300	–
Average personal deposits	n.m.	3,900	200
Average business loans	n.m.	3,900	200
Average business deposits	460	2,800	500
Average card balances	n.m.	100	–
Card spending volumes	100	200	100
Mortgage originations (\$ billions)	359	22.5	4.9
Number of:			
Employees (full-time equivalent)	296	4,126	1,041
Automated banking machines	n.m.	258	2
Branches (1)	n.m.	242	2
Online clients	181	112,481	40,000

(1) Excludes RBC Prism Mortgage sales offices of 264 in 2001 and 156 in 2000.
n.m. not meaningful

These operations recorded 7% growth in revenues compared to 2000, attributable mainly to increased spreads.

Core results

(C\$ millions, taxable equivalent basis)	% change	2001	2000
Gross revenue	7%	\$ 233	\$ 218
Number of:			
Employees (full-time equivalent)	2	1,165	1,139
Automated banking machines	8	54	50
Branches	–	39	39

Insurance

Business profile

Operating as RBC Insurance, we provide a wide range of creditor, life, health, travel, home and auto insurance products and services to more than 5 million North American clients as well as reinsurance to business clients around the world. These products and services are offered through a wide variety of distribution channels, including the telephone, independent brokers, travel agents, a proprietary sales force and the Internet.

Strategy

We are focused on becoming a leading Canadian-based insurer, with select U.S. and international operations, offering a wide range of products and services efficiently through multiple distribution channels.

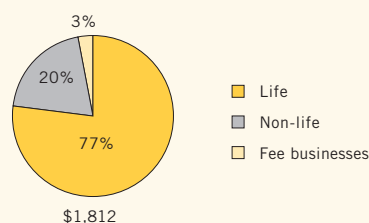
To accomplish this we will seek to:

- Continue to grow market share in Canada by expanding distribution channels, adding new products, enhancing products and leveraging products across existing distribution channels
- Develop market opportunities in niche reinsurance businesses, and expand infrastructure within offshore entities and Canadian operations to serve the high net worth market
- Continue to expand in the U.S.
- Maximize efficiency by integrating systems, services and structure in North America across business lines

Well-diversified business

Our mix of life, non-life and fee-based products and services gives us a strong insurance franchise that is also well-diversified geographically.

PREMIUMS & DEPOSITS BY DIVISION (C\$ millions)



Core financial performance (1)

Cash net income increased 83% and net income increased 68% from a year ago. Had it not been for the impact of the September 11 terrorist attacks in the U.S. on our reinsurance and travel operations, cash net income and net income would have been approximately \$30 million higher in 2001. The acquisition of RBC Liberty Insurance in November 2000 contributed significantly to the strong growth in 2001. Without this addition, cash net income and net income would have been up 45% and 40%, respectively, reflecting very strong performances from the Canadian life, creditor and travel insurance businesses.

Premiums and deposits were up 50% from 2000, and up 15% excluding RBC Liberty Insurance's premiums and deposits of \$421 million. Revenues grew 119%, or 27%, excluding the addition of RBC Liberty Insurance.

Economic Profit was \$72 million, cash ROE was 21.9% and ROE was 20.0%. Economic Profit, cash ROE and ROE reflected the addition of \$500 million of average common equity attributed to the segment in 2001, of which \$70 million related to goodwill on the acquisition of RBC Liberty Insurance.

Core results (1)

(C\$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Premiums & deposits	50%	\$ 1,812	\$ 1,208
Non-interest revenue			
Earned premium	54	1,419	923
Fee revenue/Other	983	130	12
Less: Policyholder benefits	57	985	626
Less: Policy acquisition costs	56	228	146
Net interest income	106	336	163
	145	206	84
Gross revenues	119	542	247
Non-interest expenses	117	375	173
Net income before income taxes	126	167	74
Income taxes	79	(6)	(29)
Net income	68%	\$ 173	\$ 103
Cash net income	83%	\$ 188	\$ 103
Cash net income as a % of total bank cash net income	300 bp	7%	4%
ROE	(1,860)bp	20.0%	38.6%
Cash ROE	(1,750)bp	21.9%	39.4%
Economic Profit	7%	\$ 72	\$ 67
Average assets	186	6,300	2,200
Average common equity	167	800	300
Number of employees (full-time equivalent)	96	2,583	1,318

(1) There were no special items for Insurance in 2000 or 2001 so core results are the same as reported results.

Outlook for 2002

We expect that Insurance will continue to experience good growth in 2002 as the insurance industry is less vulnerable to economic cycles compared to other industries, and our business is well diversified by product line and distribution channel. While the events of September 11 could result in further weakness in the reinsurance business, potentially higher premiums could partially offset that.

Strategy by division

Life

Our life business provides a wide range of individual and group life, health and creditor insurance products to both individual and business clients in Canada and the United States, as well as life retrocession to businesses around the world.

In Canada, life and health insurance products are distributed through a network of more than 5,000 independent brokers, almost 400 proprietary insurance agents and a direct sales unit. In the United States, Greenville, South Carolina-based Liberty Life Insurance Company provides life and health insurance products through a proprietary sales force of 650 agents, and simplified products through direct marketing channels.

Our goal is to continue to grow our life businesses by expanding our client base and range of products and services offered as well as by enhancing our distribution networks, developing additional solutions for complete insurance protection and reviewing opportunities for entry into new markets.

Non-life

Our non-life business includes home, auto, travel and property & casualty reinsurance for individual and business clients in Canada and select international markets.

We provide Canadians with a wide range of auto and home insurance products, offering them to individual clients and employee and affinity groups through direct sales channels. Travel products, which are sold through travel agents as well as bank channels in Canada, include trip cancellation insurance, out-of-country medical and baggage insurance.

We participate in the property & casualty reinsurance business by accepting a share of the risk on property and catastrophe policies issued by other insurance companies. The majority of our current business is generated from insurance companies in the United States and Europe.

Our goal is to grow our non-life business by continuing to build our domestic home and auto business and selectively expanding our property & casualty reinsurance portfolio.

Fee businesses

We are involved in a number of other key insurance and related activities that generate fee income, including travel assistance services, structured reinsurance and a proprietary sales distribution network.

Our travel and emergency assistance services are provided through Assured Assistance Inc., which co-ordinates the delivery of emergency health, evacuation and transportation services when clients have a travel emergency.

In the U.S., our fee businesses include outsourcing services and administration and software systems provided through Liberty Insurance Services Corporation (LIS). The Business Process Outsourcing division of LIS provides services such as underwriting, billing and collection, and claims processing for nearly 4 million policies under administration. The Software Solutions division develops Web-enabled software for life, health, annuity and reinsurance administration. Together, these divisions have more than 200 client sites and serve domestic, international and multinational insurers worldwide.

Our goal is to continue to leverage our existing infrastructure and technology to enhance existing programs and grow these businesses.

Core financial performance by division

Growth in premiums & deposits of 53%, and revenues of 110%, was due largely to the acquisition of RBC Liberty Insurance. Without RBC Liberty Insurance, premiums & deposits would have been up 7% and revenues 38%, reflecting continued strong growth in the Canadian life, creditor life and disability businesses.

Core results

(C\$ millions)	% change	2001	2000
Premiums & deposits	53%	\$ 1,393	\$ 912
Gross revenue	110	450	214
Average assets	194	5,300	1,800
Clients			
Number of life and health policies in force in Canada (thousands)	7	2,645	2,475
Number of life policies in force in the U.S. (thousands)	n.m.	2,600	–
Assets under management in the U.S.	n.m.	375	–
Number of U.S. sales agents	n.m.	718	–

n.m. not meaningful

Premiums & deposits grew 27%, while revenues fell 17%, reflecting the impact of the events of September 11 on the property & casualty reinsurance and travel businesses.

Core results

(C\$ millions)	% change	2001	2000
Premiums & deposits	27%	\$ 363	\$ 286
Gross revenue	(17)	25	30
Average assets	133	700	300
Clients			
Home and auto – Personal lines policies in force (thousands)	70	68	40
Travel – Number of coverages (thousands)	2	2,510	2,471

Premiums & deposits were up 409% due to growth in the structured reinsurance business. Revenues were up significantly but, excluding the addition of RBC Liberty Insurance, revenues would have been down \$9 million from 2000, reflecting the impact of the events of September 11 on the structured reinsurance business.

Core results

(C\$ millions)	% change	2001	2000
Premiums & deposits	409%	\$ 56	\$ 11
Gross revenue	n.m.	67	2
Average assets	200	300	100
Clients			
Career sales – Number of agents	14	455	400
Assured Assistance – Number of calls (thousands)	41	699	495
Number of policies under administration in the U.S. (thousands)	n.m.	4,342	–

n.m. not meaningful

Wealth Management

Business profile

Wealth Management provides direct and full-service brokerage, financial planning, investment counselling, trust, private banking, mutual funds and investment management services to private clients in Canada, the U.S. and internationally. Products and services are delivered through the bank's branch network across Canada, RBC Investments offices, private banking offices and other locations worldwide. Services are also delivered via the Internet and telephone. With the recent acquisitions, U.S. clients are served primarily in a full-service brokerage capacity in 41 states. We are client centred, focusing on relationship management to deliver comprehensive financial solutions globally, be they proprietary or third-party.

In October 2001, we restructured our distribution channels to enhance the client experience by offering seamless, comprehensive solutions while augmenting shareholder return. In addition to the financial planning business operated jointly with Personal & Commercial Banking, Wealth Management will consist of Canadian & International Brokerage (including self-directed and full-service brokerage), Global Private Banking (combining Global Private Banking, RBC Private Counsel, Canadian private banking and the Canadian personal trust business), Global Asset Management and U.S. Wealth Management (including RBC Dain Rauscher and the recently acquired Tucker Anthony Sutro).

Strategy

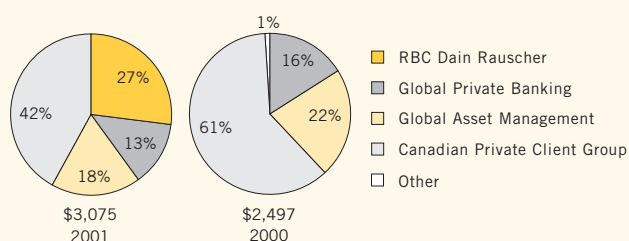
We will continue to be the trusted partner of private clients by providing personalized, comprehensive financial solutions. We will also:

- Continue to identify and segment our client base to tailor distribution channels and develop appropriate investment solutions
- Develop market leadership in the financial planning industry
- Protect and grow the domestic franchise while expanding U.S. and U.K. distribution
- Further develop superior distribution and investment capabilities by leveraging business practices across the segment and through strategic use of technology, thereby enhancing the client experience
- Attract and retain the best people and provide growth opportunities by creating a challenging environment and competitive offerings
- Proactively manage risk exposure by fostering a heightened awareness and commitment among all employees

Global focus

Wealth Management revenues are being further diversified with our increasing U.S. presence through RBC Dain Rauscher.

CORE REVENUES BY DIVISION (C\$ millions, taxable equivalent basis)



Core financial performance (1)

Wealth Management's core cash net income and core net income declined by 19% and 43%, respectively, from 2000, due primarily to weaker capital markets and expenses associated with the acquisition of RBC Dain Rauscher. Excluding RBC Dain Rauscher, which was acquired in January 2001, core cash net income would have been down 12% and core net income down 26%.

Core revenues were up 23% and expenses were up 46% from a year ago. RBC Dain Rauscher contributed significantly to the growth in revenues and expenses. Without the addition of RBC Dain Rauscher, core revenues would have declined by 10% and expenses would have declined by 4%.

Economic Profit was \$97 million, core cash ROE was 18.4% and core ROE was 11.9%. Declines in Economic Profit, core cash ROE and core ROE resulted from the above-mentioned factors, and reflected the addition of \$1.0 billion of average common equity attributed to the segment in 2001, of which \$540 million related to goodwill on the acquisition of RBC Dain Rauscher.

Core results (1)

(C\$ millions, taxable equivalent basis, except percentage amounts)	% change	2001 (2)	2000
Net interest income	7%	\$ 384	\$ 359
Non-interest revenue	26	2,691	2,138
Gross revenues	23	3,075	2,497
Provision for credit losses			
Allocated specific	300	2	(1)
Total	300	2	(1)
Non-interest expenses	46	2,691	1,846
Net income before income taxes	(41)	382	652
Income taxes	(38)	148	239
Net income	(43)%	\$ 234	\$ 413
Cash net income	(19)%	\$ 352	\$ 437
Cash net income as a % of total bank cash net income	(500)bp	14%	19%
ROE	(3,590)bp	11.9%	47.8%
Cash ROE	(3,240)bp	18.4%	50.8%
Economic Profit	(69)%	\$ 97	\$ 309
Average common equity	125	1,800	800
Number of employees (full-time equivalent)	39	10,512	7,553

(1) Excluding special items in 2001 detailed in Table 4 on page 20.

(2) 2001 results include less than 10 months of results for RBC Dain Rauscher, which was purchased on January 10, 2001, but exclude Tucker Anthony Sutro, acquired on October 31, 2001.

Outlook for 2002

Revenue growth in 2002 will be fuelled by the inclusion of a full year of results for RBC Dain Rauscher and the newly acquired Tucker Anthony Sutro. The sale of RT Capital Management is not expected to have a significant impact on revenue growth. However, with the expectation that economic growth will not resume until the second half of 2002, generating cash net income growth for Wealth Management will be a challenge. To reduce the volatility of earnings resulting from the unpredictable nature of the capital markets, we will continue to focus on generating fees based on asset values instead of transaction volumes. As well, we are implementing a number of cost-containment programs in 2002 which should generate savings in addition to synergies to be derived from the integration of Tucker Anthony Sutro with RBC Dain Rauscher.

Strategy by division

Canadian Private Client Group

This group includes Action Direct (self-directed brokerage), private client division (full-service retail brokerage), financial planning, RBC Private Counsel and personal trust, and is the domestic distribution network for wealth accumulators and preservers, investors requiring advisor-based comprehensive financial solutions, and self-managed investors. Services are provided by over 180 investment representatives, over 1,460 investment advisors, 370 accredited financial planners, 60 investment counsellors, 80 trust officers, as well as via telephone and the Internet. Continued growth in Canada is essential to allow us to leverage our markets in the U.S., Latin America and Europe. Our goal is to continue building and enhancing client relationships while reconfiguring the self-directed brokerage business for the current market environment. With the creation of our new financial planning platform operated jointly with Personal & Commercial Banking, we will be able to effectively serve all Canadians with their investment needs, be they emerging affluent, affluent, high net worth or ultra-high net worth.

RBC Dain Rauscher

Acquired in January 2001, Minneapolis-based RBC Dain Rauscher helps U.S. private clients identify and achieve their financial goals. Our goal is to be a trusted partner of affluent private clients in chosen markets by providing them with personalized comprehensive financial solutions. On October 31, 2001, the acquisition of Boston-based Tucker Anthony Sutro was completed and we plan to merge it into RBC Dain Rauscher to create the ninth-largest full-service securities firm in the U.S., with nearly 2,100 investment executives serving individual clients from coast to coast. Expenses associated with the acquisition and consolidation of RBC Dain Rauscher amounted to \$125 million in 2001 and are expected to be approximately \$60 million in 2002. Our objectives for 2002 will be to integrate Tucker Anthony Sutro, increase market share in selected geographic markets and expand organically in existing markets where the bank already has a presence.

Global Private Banking

This globally focused unit provides private banking, trust and investment counselling solutions to high net worth clients from more than 100 countries. Our goal in 2002 is to grow revenues by leveraging the bank's North American distribution capabilities and by exploring potential European acquisitions. The recently announced integration of our Canadian trust, RBC Private Counsel and domestic private banking businesses with Global Private Banking (the international units) will facilitate the offering of both proprietary and third-party products and solutions. It will also facilitate the creation of fully integrated worldwide offerings for clients, and lead to cost synergies to be realized in 2002.

Global Asset Management

This unit, which includes Investment Management and Royal Mutual Funds, manages over \$34 billion of proprietary mutual funds and provides investment management products and services through RBC Royal Bank, RBC Investments' distribution businesses and external distributors, to private and institutional clients in Canada and worldwide. Our family of mutual funds and other pooled products encompasses a broad range of investment solutions including money market, fixed income, balanced and equity funds, as well as alternative investments. Our mix of Canadian, U.S. and international equity funds offers investment opportunities in all major industry sectors on a global basis. RT Capital Management's institutional pension fund management business, with assets under management (AUM) of \$30 billion (at July 31, 2001), was sold on August 15, 2001, allowing us to focus on our asset management segments with greater growth potential. In 2002, our goal is to broaden the distribution channels for investment management services and mutual fund products.

Core financial performance by division

Core revenues were up 23% from a year ago as a result of the acquisition of RBC Dain Rauscher. Without RBC Dain Rauscher, core revenues would have decreased 10% as a result of lower transaction-based and fee-based revenues reflecting weak capital markets in 2001.

Core revenues

(C\$ millions)	% change	2001	2000
Canadian Private Client Group (1)	(15)%	\$ 1,298	\$ 1,527
RBC Dain Rauscher (2)	n.m.	829	–
Global Private Banking (3)	–	392	391
Global Asset Management (1), (3)	(2)	550	563
Other (4)	(63)	6	16
	23%	\$ 3,075	\$ 2,497

- (1) 2000 revenues were restated for the reclassification of personal trust revenue from Global Asset Management to Canadian Private Client Group.
(2) RBC Dain Rauscher was purchased on January 10, 2001, and Tucker Anthony Sutro was purchased on October 31, 2001. Revenues from Tucker Anthony Sutro are not reflected above.
(3) 2000 results were restated for 2001 business unit reclassifications. Revenues from RT Capital Management were included in results until August 15, 2001.
(4) 2000 revenues include Group Retirement Services (sold January 2001), Bull & Bear Securities Inc. (sold June 2001) and other miscellaneous income.
n.m. not meaningful

Assets under administration (AUA) increased 59% from 2000. The addition of AUA from RBC Dain Rauscher and Tucker Anthony Sutro more than offset the decrease in AUA in the Canadian Private Client Group and Global Private Banking due to declines in market values. Institutional AUA increased 12% reflecting new business in Jersey and an increase in the value of the British pound against the Canadian dollar.

Assets under administration (AUA)

(C\$ millions)	% change	2001	2000 (2)
Personal			
Canadian Private Client Group	(9)%	\$ 137,300	\$ 151,200
RBC Dain Rauscher (1)	n.m.	157,000	–
Global Private Banking	(5)	52,300	54,900
Total personal	68	346,600	206,100
Institutional	12	47,100	42,200
	59%	\$ 393,700	\$ 248,300

- (1) RBC Dain Rauscher was purchased on January 10, 2001. Includes Tucker Anthony Sutro (AUA of \$70.8 billion), purchased on October 31, 2001.
(2) 2000 results were restated to conform with the current presentation of results.
n.m. not meaningful

AUM grew 11% from last year, due to a substantial increase in personal AUM resulting from the acquisitions of RBC Dain Rauscher and Tucker Anthony Sutro. The decline in institutional AUM reflected the sale of RT Capital Management in August 2001, which had \$30 billion in AUM. Mutual fund asset levels remained stable despite the decline in asset values due to weak market conditions, as investor interest in money market funds increased.

Assets under management (AUM)

(C\$ millions)	% change	2001	2000
Personal (1)	139%	\$ 51,400	\$ 21,500
Institutional (1), (2)	(54)	16,950	36,700
Mutual funds	1	34,550	34,100
	11%	\$ 102,900	\$ 92,300

- (1) RBC Dain Rauscher was purchased on January 10, 2001. Includes Tucker Anthony Sutro, purchased on October 31, 2001. Personal AUM for RBC Dain Rauscher and Tucker Anthony Sutro was \$33.1 billion. Institutional AUM for RBC Dain Rauscher was \$10.6 billion.
(2) RT Capital Management was sold on August 15, 2001.

Corporate & Investment Banking

Business profile

Operating under the RBC Capital Markets brand, Corporate & Investment Banking serves corporate, government and institutional clients in North America and in selected product and industry niches globally. We are headquartered in Toronto, with key centres of expertise in Minneapolis, New York and London, and offices in 29 other cities. This business offers North American expertise in the energy, communications, health care and technology sectors, and global expertise in the resource sectors. It is also globally competitive in Canadian securities, equity and credit derivatives, mergers & acquisitions, structured finance, foreign exchange and Eurobonds.

In 2001, Corporate & Investment Banking consisted of three operating divisions – Global Banking, Global Equity and Global Markets – along with Dain Rauscher Wessels (DRW), its U.S. equity capital markets division. We announced a restructuring of our businesses effective November 1, 2001, which will position us for future continental growth. (See highlights, page 12.)

Strategy

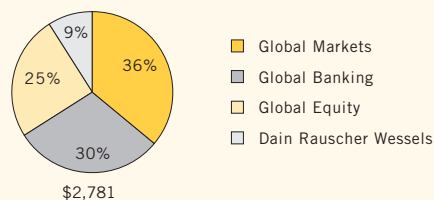
Key strategies for Corporate & Investment Banking include the following:

- Develop a strong North American franchise by expanding our market position in targeted U.S. industry sectors that include energy, technology, biotechnology, health care, consumer products and financial institutions, and maintain a leading full-service position in all of our Canadian markets
- Increase our market penetration in asset securitization through a global structure that includes term products, and broaden our share of the U.S. market in high-yield debt and alternative assets
- Build global niches in trading, distribution and structuring

Strength through revenue diversification

Our diversification by business line, as well as the acquisition of Dain Rauscher Wessels, enabled us to achieve strong revenue growth compared to last year, despite weak capital markets.

CORE REVENUES BY DIVISION (C\$ millions, taxable equivalent basis)



Core financial performance ⁽¹⁾

Core cash net income for Corporate & Investment Banking was down 21% and core net income was down 25% from last year, reflecting a \$316 million increase in the provision for credit losses largely in the U.S. telecommunication sector, weak capital market conditions and the acquisition of DRW. Without DRW, core cash net income and core net income would have declined 9% and 8%, respectively.

Revenues grew 19% while expenses grew 24% from 2000. Without the addition of DRW, revenues would have increased 9% and expenses would have declined by 2%. Net interest income rebounded from 2000 levels due primarily to a strong performance from the fixed income business and lower funding costs from the equity derivatives business. The lower funding costs for equity derivatives resulted from lower trading inventories and declining interest rates in 2001.

Economic Profit was \$(44) million in 2001, while core cash ROE was 11.8% and core ROE was 10.5%. Declines in Economic Profit, core cash ROE and core ROE resulted from the above-mentioned factors, and reflected the addition of \$1.0 billion of average common equity attributed to the segment in 2001, of which \$360 million related to goodwill on the acquisition of DRW.

Core results ⁽¹⁾

(C\$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Net interest income	898%	\$ 429	\$ 43
Non-interest revenue	3	2,352	2,287
Gross revenues	19	2,781	2,330
Provision for credit losses			
Allocated specific	402	407	81
Allocated general and unallocated	(100)	–	10
Total	347	407	91
Non-interest expenses	24	1,804	1,456
Net income before income taxes	(27)	570	783
Income taxes	(33)	173	259
Non-controlling interest and taxable equivalent adjustment	(5)	21	22
Net income	(25)%	\$ 376	\$ 502
Cash net income	(21)%	\$ 417	\$ 527
Cash net income as a % of total bank cash net income	(600)bp	17%	23%
ROE	(1,030)bp	10.5%	20.8%
Cash ROE	(1,020)bp	11.8%	22.0%
Economic Profit	(123)%	\$ (44)	\$ 194
Average assets	21	159,500	131,900
Average loans and bankers' acceptances	(2)	30,700	31,400
Average deposits	19	73,600	61,900
Average common equity	43	3,300	2,300
Number of employees (full-time equivalent)	16	2,954	2,541

(1) Excluding special items in 2001 detailed in Table 4 on page 20.

Outlook for 2002

Given the economic outlook, we are expecting modest revenue growth in 2002. Our focus will be on our ongoing cost-containment efforts and organizational restructuring designed to improve our client focus. We expect that our cost performance will offset any weakness in revenues, resulting in moderate cash net income growth. The key risk to our outlook for 2002 is a prolonged economic slowdown which could result in continued lower trading volumes and weakness in merger and acquisition, new issue and advisory activities.

Strategy by division

Global Banking

Global Banking offers a full range of credit and corporate finance products including debt and equity underwriting, mergers & acquisitions advice and execution, private equity, mezzanine debt, syndicated loans, asset securitization and structured finance.

Objectives for 2002 include:

- Within the new Capital Markets Services structure (see highlights, page 12), continuing to provide clients with creative, well-executed solutions based upon our focused industry expertise, our capital markets insight and our breadth of product capability
- Integration of our U.S. and Canadian investment banking teams
- Expansion of our structured finance and securitization capabilities
- Focused and active management of the loan portfolio, which is expected to further reduce the size of our corporate lending base while enhancing the quality of earnings from this source

Global Equity

Global Equity provides comprehensive Canadian equity research, sales and trading of listed equities and related products for institutional investors, distribution of new issues, and North American and international structured product solutions. As of November 1, 2001, our equity research, sales and trading functions were integrated with the Capital Markets Services division.

Our goal is to create a North American full-service boutique in information technology, health care, energy, mining and structured products, leveraging the integration of DRW into Capital Markets Services.

Objectives for 2002 include:

- Implementation of a new trading platform and internalization of an increased portion of our current order flow by the end of the second quarter
- Restructuring of our European sales & trading platform
- Sales & trading leveraging of hedge fund relationships

Global Markets

Global Markets provides round-the-clock money market, fixed income, foreign exchange and currency risk management services and has an extensive global sales and trading network operating from hubs in Toronto, London, New York and Sydney. Service is also delivered through Global Market's Internet dealing platform, FX Direct. Fixed income capabilities include the underwriting, trading and distribution of corporate and government debt, interest rate and credit derivatives, Eurobonds and high-yield bonds.

Objectives for 2002 include:

- Continued expansion of our global derivative capabilities
- Continued delivery of e-commerce solutions to clients
- Ongoing leadership in our domestic markets and maintenance of our competitive position globally
- Continuing to take advantage of proprietary opportunities in the marketplace

Dain Rauscher Wessels

The research capability of DRW has been the cornerstone of its successful investment banking, sales and trading activities. The industry focus of DRW complements areas of expertise in RBC Capital Markets, one of many factors that will drive the expansion of Capital Markets Services' North American platform as DRW is fully integrated into the division in 2002.

Core financial performance by division

Global Banking's revenues were largely unchanged from last year, despite material slowing in merger activity. The decline in revenues from mergers & acquisitions was offset by a 14% increase in corporate lending revenues due to wider spreads, and an increase in other lending fees. The provision for credit losses was \$407 million, up from \$91 million in 2000, largely reflecting credit deterioration in the U.S. telecommunication sector.

Core results

(C\$ millions)	% change	2001	2000
Gross revenues	–	\$ 852	\$ 855
Average assets	–	28,500	28,500

Global Equity's revenues were down 6% from 2000, reflecting lower trading volumes and reduced equity market volatility. Sales and trading was impacted by the weak capital market conditions, resulting in lower agency commissions, and new issue, proprietary trading and domestic derivatives revenues, compared to last year. Global Equity Derivatives offset a portion of this decline with 24% revenue growth in 2001.

Core results

(C\$ millions)	% change	2001	2000
Gross revenues	(6)%	\$ 684	\$ 731
Average assets	13	16,100	14,300

Global Markets generated record revenues in 2001, of nearly \$1 billion, up 34% from last year. All product lines within Global Markets reported record revenue growth, especially the fixed income and foreign exchange businesses. Business volumes from FX Direct, our proprietary Web-based foreign exchange trading system, increased 54% from 2000.

Core results

(C\$ millions)	% change	2001	2000
Gross revenues	34%	\$ 999	\$ 744
Average assets	28	114,200	89,100

DRW was acquired in January 2001, and generated revenue of \$246 million, of which 64% came from U.S. equity sales and trading, with the remainder from investment banking activities. DRW implemented a number of expense management initiatives in 2001 that will continue into 2002.

Core results

(C\$ millions)	% change	2001	2000
Gross revenues	n.m.	\$ 246	–
Average assets	n.m.	700	–

n.m. not meaningful

Transaction Processing

Business profile

This segment, operating under the RBC Global Services brand, offers specialized transaction processing services to commercial, corporate and institutional clients in domestic and select international markets. Key businesses include custody, correspondent banking, cash management, payments and trade finance.

Strategy

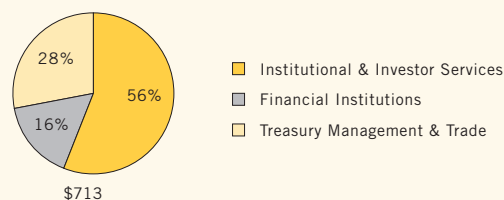
Key strategies for Transaction Processing include the following:

- Leverage client relationships and our leadership position in Canada to develop new business in select domestic and international markets
- Grow the business through key alliances, acquisitions and partnerships
- Align and build new product and service propositions such as offering outsourced mutual fund administration
- Continue to enhance our processing and systems platforms to deliver new capability and improved efficiencies, and to drive economies of scale

Stable, fee-based focus

Our processing businesses provide stability of earnings and high growth potential. We will continue to further diversify our revenue streams through the delivery of value-added services.

CORE REVENUES BY DIVISION (C\$ millions, taxable equivalent basis)



Core financial performance ⁽¹⁾

Transaction Processing showed cash net income and net income growth of 7% from last year. The segment continues to account for 6% of the total bank's cash net income.

Revenue growth of 6% in 2001 outpaced expense growth of 4%. The Investor Services division accounted for a large part of the revenue growth.

Economic Profit was \$85 million, cash ROE was 31.1% and ROE was 29.4%. Declines in cash ROE and ROE largely reflected \$100 million of additional average common equity allocated to the segment to underpin operational risk.

Core results ⁽¹⁾

(C\$ millions, taxable equivalent basis, except percentage amounts)	% change	2001	2000
Net interest income	(6)%	\$ 150	\$ 160
Non-interest revenue	10	563	514
Gross revenues	6	713	674
Recovery of provision for credit losses	(90)	2	21
Non-interest expenses	4	476	459
Net income before income taxes	1	239	236
Income taxes	(7)	95	102
Net income	7%	\$ 144	\$ 134
Cash net income	7%	\$ 152	\$ 142
Cash net income as a % of total bank cash net income	- bp	6%	6%
ROE	(280)bp	29.4%	32.2%
Cash ROE	(270)bp	31.1%	33.8%
Economic Profit	5%	\$ 85	\$ 81
Average common equity	25	500	400
Number of employees (full-time equivalent)	24	2,553	2,061

(1) There were no special items for Transaction Processing in 2000 or 2001 so core results are the same as reported results.

Outlook for 2002

Although revenues earned on deposits and cash balances are impacted by declines in interest rates, the bulk of our fee businesses are reasonably insulated from changes in the economic environment. As a result, with the inclusion of a full year of results for Perpetual Fund Services, and our growth initiatives, our goal is to achieve double-digit revenue growth in 2002. Transaction Processing will continue to focus on selling value-added services, such as securities lending and trade advisory services, to further diversify its revenue streams. In addition, we will work to expand new service propositions such as mutual fund administration outsourcing, and will be leveraging the Perpetual Fund Services acquisition.

Strategy by division

Institutional & Investor Services

Institutional & Investor Services is Canada's largest custodian as measured by assets under administration (AUA), and a recognized provider of custody and related securities services to corporate and institutional investors worldwide. Institutional & Investor Services operates from 13 locations throughout the world, with a global custody network spanning more than 80 markets.

Our goal is to protect and build our core Canadian franchise and be a focused global provider for fund managers, financial institutions and private banks. We will leverage the Perpetual Fund Services acquisition, which provides us with a full-service operational unit, to accelerate our growth opportunities in Australia and Asia-Pacific.

Our strategic alliance with CI Mutual Funds is a major initiative to increase business relationships with fund companies to tailor solutions that increase their efficiency and competitiveness in the marketplace. We are looking to explore more of these mutual fund outsourcing opportunities over the next year.

Financial Institutions

A comprehensive range of correspondent banking services are provided to banks globally and to broker-dealers within Canada, including cash management, payments, clearing, trade, foreign exchange, derivatives lending, securities lending, custody and settlement, and structured financing.

We will leverage client relationships and our leadership position in the Canadian dollar clearing market to develop new business flows in targeted international markets and value-added solutions for our clients.

In 2002, we continue to target winning more than 50% of the available Continuous Linked Settlement mandates awarded in Canada.

Treasury Management & Trade

Treasury Management & Trade provides cash management services to the small and medium enterprise (SME), commercial, corporate and public sector segments, offering a broad range of electronic solutions including e-commerce and other Web-based technologies. Our Trade team provides Canadian and foreign importers and exporters with a variety of innovative trade products, services and counsel. Our payments centre facilitates a high volume of domestic and international payment services for clients around the world, and is the largest processor of Canadian dollar payments in Canada.

We are committed to meeting the changing needs of our business clients through a product offering that is delivered through various access channels. A key initiative that is underway involves the development of a robust and expandable Web-based cash management platform to support the ongoing introduction of Web channel products and services for business clients.

We are well positioned in our trade franchise to take advantage of developing trade trends and leverage alliance partners to build new revenue streams both in North America and globally.

Core financial performance by division

Revenues grew 11% in 2001, driven by fee growth from new business and from value-added services. AUA grew 2% from 2000. The Perpetual Fund Services acquisition added \$60 billion in AUA in 2001, but the impact of equity market declines on AUA largely offset this addition.

Core results

(C\$ millions)	% change	2001	2000
Gross revenues	11%	\$ 398	\$ 360
AUA	2	936,700	920,000

Revenues decreased 4% from 2000, due largely to the movement of certain revenues from Transaction Processing to Corporate & Investment Banking during 2000. Excluding this transfer, revenues would have increased 4%, reflecting fee growth partially offset by reduced spreads on deposits and loans.

Core results

(C\$ millions)	% change	2001	2000
Gross revenues	(4)%	\$ 113	\$ 118
Average assets	67	2,000	1,200
Average deposits	–	1,700	1,700

Revenues increased 3% from 2000 as fee income growth of 11% offset a 9% decline in net interest income. The reduction in short-term interest rates in 2001 impacted spreads earned on deposit balances. Payment volumes grew 17% as the payment error rate continued to decline.

Core results

(C\$ millions, volumes in thousands)	% change	2001	2000
Gross revenues	3%	\$ 202	\$ 196
Average deposits	3	6,000	5,800
Payment volumes	17	4,900	4,200
Payment errors (per 10,000 payments)	(1)	.81	.82

Financial priority: Revenue growth and diversification

Highlights

- Core (operating) revenues up 19%, reflecting acquisitions
- Excluding acquisitions, operating revenues up 3%
- Net interest income up 23%
- Net interest margin of 1.97%, up 10 basis points
- Core non-interest revenues up 15%
- Core non-interest revenues 54% of total revenues

Net interest income

Net interest income was up 23% from 2000 to \$6.5 billion. The majority of the increase stemmed from higher volumes of interest-earning assets, particularly from retail loans and assets resulting from acquisitions made in the last year. Net interest income would have been up 14% excluding the impact of recent acquisitions (Centura, Dain Rauscher, Liberty and Prism Financial).

In addition to acquisitions, net interest income benefited from lower funding costs for the equity derivatives portfolio reflecting lower interest

rates. The trading revenues from the equity derivatives portfolio are recorded in non-interest revenues.

As shown in Table 6 below, the net interest margin increased by 10 basis points from last year to 1.97%, as the benefits of a higher net interest margin in RBC Centura and lower funding costs for Global Equity Derivatives more than offset a narrower spread between the prime rate and core deposit funding costs resulting from a reduction in the average Canadian prime rate to 6.56% from 7.05% in 2000.

TABLE 6 Net interest income and margin

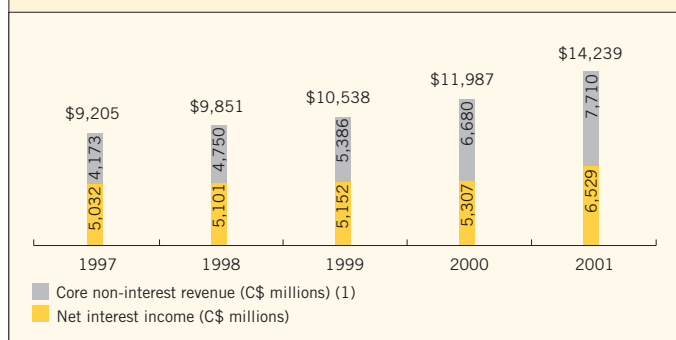
(C\$ millions, except percentage amounts)	2001	2000	1999
Average assets	\$ 331,600	\$ 284,100	\$ 270,000
Net interest income (1)	6,529	5,307	5,152
Net interest margin (2)	1.97%	1.87%	1.91%

(1) Taxable equivalent basis.

(2) Net interest income, on a taxable equivalent basis, as a percentage of average assets.

Strong core revenue growth

International expansion and diversified business drive core revenue growth of 19% in 2001. Annualized growth rate of 11.5%.



(1) Excluding special items, taxable equivalent basis.

Core non-interest revenue

As shown in Table 9 on page 35, core non-interest revenues (i.e., excluding special items shown in Table 4 on page 20) were \$7.7 billion, up \$1.0 billion or 15% from 2000, reflecting acquisitions. Core non-interest revenues accounted for 54% of total core revenues, down from 56% in 2000 due to the acquisition of Centura which derives a higher proportion of its revenues from net interest income than the bank.

Core non-interest revenues were up 11% in Personal & Commercial Banking, 106% in Insurance, 26% in Wealth Management and 3% in Corporate & Investment Banking, partially reflecting acquisitions. Non-interest revenues were up by 10% in Transaction Processing. Excluding the impact of acquisitions, core non-interest revenues were down 7%. Although four business segments experienced revenue growth, this was more than offset by a decline in Wealth Management, which

experienced substantially lower client trading volumes in its full-service and self-directed brokerage operations.

All sources of core non-interest revenue improved in 2001, with the exception of card service revenues and loss on sale of securities. Card service revenues fell 31% reflecting the formation of the Moneris Solutions merchant processing joint venture in the first quarter and the securitization of credit card receivables during the year. The bank's 50% share of Moneris Solutions' net income was included in other non-interest revenues in 2001. The loss on sale of securities increased as the bank also wrote down some investments. Securitization revenues were up due to credit card and mortgage loan securitizations during the year, while credit fees were up due to higher fees from bankers' acceptances. Insurance revenues, investment management and custodial fees, trading revenues, and deposit and payment service charges all rose, partially due to acquisitions. Capital market fees and mutual fund revenues both grew by a modest 3%, reflecting the impact of weaker capital markets in 2001. Although Royal Mutual Funds experienced asset growth of over \$300 million in 2001, clients moved out of higher-yielding products to lower-yielding money market funds over the past year. Other non-interest revenues were up substantially, largely reflecting revenues from acquisitions that are not included in other categories of non-interest revenues and also reflecting substantially higher revenues at RBC Prism Mortgage this year.

Excluding the effect of acquisitions, deposits and payment service charges, insurance revenues, investment management and custodial fees, credit fees, and mutual fund revenues all rose from 2000, reflecting organic growth. Securitization revenues also rose, largely reflecting the activity mentioned above. However, excluding the impact of acquisitions, capital market fees and trading revenues were down from 2000, generally due to weaker capital markets.

Outlook

The bank is targeting core revenue growth of 7–10% in fiscal 2002. This is due to the inclusion of 12 months of revenues from RBC Centura, up from 5 months in fiscal 2001, and the expectation of an improvement in the economy in the second half of calendar 2002.

(C\$ millions, taxable equivalent basis, except percentage amounts)	Average balances (1)			Interest (2)			Average rate		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
Assets									
Deposits with other banks									
Canada	\$ 415	\$ 528	\$ 289	\$ 18	\$ 22	\$ 12	4.34%	4.17%	4.15%
International	17,101	14,740	15,596	813	802	714	4.75	5.44	4.58
	17,516	15,268	15,885	831	824	726	4.74	5.40	4.57
Securities									
Trading account	53,477	40,669	32,452	2,143	1,519	1,197	4.01	3.74	3.69
Available for sale (3)	21,623	19,471	17,223	1,170	1,107	966	5.41	5.69	5.61
Held to maturity	–	1,057	1,161	–	71	67	–	6.72	5.77
	75,100	61,197	50,836	3,313	2,697	2,230	4.41	4.41	4.39
Assets purchased under reverse repurchase agreements	29,591	21,729	21,769	1,163	1,078	893	3.93	4.96	4.10
Loans (4)									
Canada									
Residential mortgage	62,449	59,860	57,979	4,087	3,891	3,784	6.54	6.50	6.53
Personal	28,089	26,949	24,347	2,325	2,290	1,945	8.28	8.50	7.99
Credit card	4,586	3,559	2,297	556	405	226	12.12	11.38	9.84
Business and government	33,890	34,381	33,799	1,281	1,506	1,399	3.78	4.38	4.14
	129,014	124,749	118,422	8,249	8,092	7,354	6.39	6.49	6.21
International	33,232	24,927	27,705	3,783	3,446	3,032	11.38	13.82	10.94
	162,246	149,676	146,127	12,032	11,538	10,386	7.42	7.71	7.11
Total interest-earning assets	284,453	247,870	234,617	17,339	16,137	14,235	6.10	6.51	6.07
Non-interest-bearing deposits with other banks	267	162	341						
Customers' liability under acceptances	9,890	10,281	9,508						
Other assets	39,025	27,724	27,531						
Allowance for credit losses	(2,035)	(1,937)	(1,997)						
Total assets	\$ 331,600	\$ 284,100	\$ 270,000	\$ 17,339	\$ 16,137	\$ 14,235	5.23%	5.68%	5.27%
Liabilities and shareholders' equity									
Deposits (5)									
Canada	\$ 110,228	\$ 107,533	\$ 104,919	\$ 4,712	\$ 5,060	\$ 4,480	4.27%	4.71%	4.27%
International	90,459	71,024	66,498	4,000	3,997	3,156	4.42	5.63	4.75
	200,687	178,557	171,417	8,712	9,057	7,636	4.34	5.07	4.45
Obligations related to securities sold short	16,358	14,195	15,015	654	656	554	4.00	4.62	3.69
Obligations related to assets sold under repurchase agreements	19,892	11,873	12,169	894	653	532	4.49	5.50	4.37
Subordinated debentures	6,890	5,129	4,499	405	344	286	5.88	6.71	6.36
Other interest-bearing liabilities	3,124	3,042	5,574	145	120	75	4.64	3.94	1.35
Total interest-bearing liabilities	246,951	212,796	208,674	10,810	10,830	9,083	4.38	5.09	4.35
Non-interest-bearing deposits	20,732	17,509	13,379						
Acceptances	9,890	10,281	9,508						
Other liabilities	38,092	30,811	25,958						
	315,665	271,397	257,519	10,810	10,830	9,083	3.42	3.99	3.53
Shareholders' equity									
Preferred	2,036	1,978	2,213						
Common	13,899	10,725	10,268						
Total liabilities and shareholders' equity	\$ 331,600	\$ 284,100	\$ 270,000	\$ 10,810	\$ 10,830	\$ 9,083	3.26%	3.81%	3.36%
Net interest income as a % of total average assets	\$ 331,600	\$ 284,100	\$ 270,000	\$ 6,529	\$ 5,307	\$ 5,152	1.97%	1.87%	1.91%
Net interest income as a % of total average interest-earning assets									
Canada	\$ 186,468	\$ 180,345	\$ 169,167	\$ 5,324	\$ 4,796	\$ 4,402	2.86%	2.66%	2.60%
International	97,985	67,525	65,450	1,205	511	750	1.23	.76	1.15
Total	\$ 284,453	\$ 247,870	\$ 234,617	\$ 6,529	\$ 5,307	\$ 5,152	2.30%	2.14%	2.20%

(1) Calculated on a daily basis.

(2) Interest income includes loan fees of \$328 million (2000 – \$274 million; 1999 – \$250 million). The taxable equivalent adjustment is based on the Canadian tax rate of 41.5% (2000 – 42.8%; 1999 – 43.0%) and U.S. federal tax rate of 39.5%.

(3) Tax-exempt securities had average balances of \$6,752 million (2000 – \$2,848 million; 1999 – \$2,017 million), interest earned of \$141 million (2000 – \$63 million; 1999 – \$83 million) and average rates of 2.09% (2000 – 2.21%; 1999 – 4.12%).

(4) Average balances include nonaccrual loans.

(5) Deposits include savings deposits with average balances of \$38 billion (2000 – \$34 billion; 1999 – \$33 billion), interest expense of \$.6 billion (2000 – \$.7 billion; 1999 – \$.6 billion) and average rates of 1.58% (2000 – 2.06%; 1999 – \$1.82%). Deposits also include time deposits with average balances of \$44 billion (2000 – \$38 billion; 1999 – \$37 billion), interest expense of \$2.0 billion (2000 and 1999 – \$2.0 billion) and average rates of 4.55% (2000 – 5.26%; 1999 – 5.41%).

TABLE 8 Change in net interest income

(C\$ millions, taxable equivalent basis)	2001 vs 2000 Increase (decrease) due to changes in			2000 vs 1999 Increase (decrease) due to changes in		
	average volume (1)	average rate (1)	Net change	average volume (1)	average rate (1)	Net change
Assets						
Deposits with other banks						
Canada	\$ (5)	\$ 1	\$ (4)	\$ 10	\$ –	\$ 10
International	119	(108)	11	(41)	129	88
Securities						
Trading account	507	117	624	307	15	322
Available for sale	118	(55)	63	128	13	141
Held to maturity	(71)	–	(71)	(6)	10	4
Assets purchased under reverse repurchase agreements						
	339	(254)	85	(2)	187	185
Loans						
Canada						
Residential mortgage	169	27	196	122	(15)	107
Personal	95	(60)	35	216	129	345
Credit card	123	28	151	139	40	179
Business and government	(21)	(204)	(225)	24	83	107
International	1,016	(679)	337	(326)	740	414
Total interest income	\$ 2,389	\$ (1,187)	\$ 1,202	\$ 571	\$ 1,331	\$ 1,902
Liabilities						
Deposits						
Canada	\$ 124	\$ (472)	\$ (348)	\$ 114	\$ 466	\$ 580
International	962	(959)	3	226	615	841
Obligations related to securities sold short						
	93	(95)	(2)	(32)	134	102
Obligations related to assets sold under repurchase agreements						
	377	(136)	241	(13)	134	121
Subordinated debentures						
	107	(46)	61	42	16	58
Other interest-bearing liabilities						
	4	21	25	(47)	92	45
Total interest expense	1,667	(1,687)	(20)	290	1,457	1,747
Net interest income	\$ 722	\$ 500	\$ 1,222	\$ 281	\$ (126)	\$ 155

(1) Volume/rate variance is allocated on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income on a taxable equivalent basis.

TABLE 9 Non-interest revenue

(C\$ millions, except percentage amounts)	2001	2000	1999	2001 vs 2000 Increase (decrease)	
Capital market fees	\$ 1,870	\$ 1,810	\$ 1,209	\$ 60	3%
Trading revenues	1,820	1,540	1,106	280	18
Investment management and custodial fees	895	684	547	211	31
Deposit and payment service charges	887	756	688	131	17
Mutual fund revenues	546	528	479	18	3
Foreign exchange revenues, other than trading	300	299	243	1	–
Card service revenues	290	420	362	(130)	(31)
Insurance revenues	263	151	174	112	74
Credit fees	237	212	189	25	12
Securitization revenues	125	104	220	21	20
Gain (loss) on disposal of premises and equipment	22	(16)	(5)	38	238
Gain (loss) on sale of securities	(128)	(11)	18	(117)	n.m.
Other	583	203	156	380	187
Total core	7,710	6,680	5,386	1,030	15
Special items (1)	445	–	105	445	n.m.
Total	\$ 8,155	\$ 6,680	\$ 5,491	\$ 1,475	22%

(1) Special items in 2001 are described in Table 4 on page 20. Special items in 1999 of \$105 million consisted of a gain on sale of real estate of \$95 million and gain on sale of securities of \$28 million, offset by writedowns of certain investments of \$18 million.

n.m. not meaningful

TABLE 10 Trading revenues

(C\$ millions)	2001	2000	1999
Net interest income (1)	\$ (68)	\$ (365)	\$ 5
Non-interest revenue (2)	1,820	1,540	1,106
Total	\$ 1,752	\$ 1,175	\$ 1,111
By product			
Equity	\$ 684	\$ 495	\$ 325
Fixed income and money markets (3)	726	378	492
Foreign exchange contracts (4)	340	301	290
Commodity and precious metals	2	1	4
Total	\$ 1,752	\$ 1,175	\$ 1,111

(1) Includes interest earned on trading securities and other cash instruments held in the trading portfolios less funding costs associated with trading-related derivative and security positions.

(2) Primarily includes realized and unrealized gains and losses on trading securities, derivative instruments and foreign exchange trading activities.

(3) Includes Canadian government securities and corporate debt instruments, swaps, interest rate options, interest rate futures, forward rate agreements and related cash instruments used to hedge the trading derivatives portfolios.

(4) Includes foreign exchange spot, forward, futures and options contracts.

Trading revenues

Trading revenues include gains and losses on securities and derivatives that the bank trades actively, or expects to hold for short periods, and whose values are marked-to-market daily. A description of trading revenues included in net interest income and non-interest revenues is provided in footnotes (1) and (2) to Table 10 above.

Total trading revenues were up \$577 million or 49% in 2001, partially reflecting acquisitions in the last year. The bank continues to avoid large proprietary trading positions and conducts the majority of trading to accommodate clients in the major G7 markets and currencies. Trading revenues recorded in net interest income increased by \$297 million during 2001, with \$118 million and \$28 million, respectively, relating to the equity derivatives portfolio and acquisitions during the year. These two factors accounted for \$(63) million and \$318 million, respectively,

of the \$280 million increase in trading revenues included in non-interest revenues. As mentioned on page 32, funding costs from the Global Equity Derivatives portfolio are included in net interest income and the revenues are recorded in non-interest revenue.

Excluding acquisitions, trading revenues in non-interest revenues decreased \$38 million from 2000, largely reflecting weaker capital markets in 2001.

With respect to products, as shown in Table 10 above, revenues from equity contracts increased 38%, largely reflecting lower funding costs in the equity derivatives business. Revenues from debt instruments grew 92% due to the flattening of the fixed income yield curve, while trading revenues from foreign exchange contracts rose 13%.

Financial priority: Cost control

Highlights

- Core non-interest expenses up 25% from 2000
- Operating non-interest expenses excluding acquisitions were virtually unchanged from 2000

Performance

As shown in the table below, core non-interest expenses (i.e., excluding special items mentioned in [Table 4 on page 20](#)) were up \$1.9 billion or 25% from 2000.

Operating non-interest expenses (which exclude the special items mentioned in [Table 4 on page 20](#), the costs of Stock Appreciation Rights (SARs) and certain acquisition costs such as retention compensation) were up 23% in 2001, with \$176 million of retention compensation expenses relating to the Dain Rauscher acquisition, and SAR expenses of \$23 million compared to \$52 million in 2000. SARs were first granted under the Stock Option Plan in November 1999, and their costs are determined every quarter based upon the change in the bank's share price and the vesting, which occurs over time.

Non-interest expenses of recent acquisitions (including costs of amortizing goodwill and other intangibles) were \$1,823 million in 2001, up from \$63 million in 2000. Excluding these costs, operating non-interest expenses were virtually unchanged from 2000.

During 2001, certain pension, postretirement and postemployment plans were reviewed. This review resulted in changes to assumptions used to determine future benefit obligations and, as a result, an additional \$87 million of human resource benefit costs were recorded.

Also, capital market-related businesses within Corporate & Investment Banking and Wealth Management accelerated efforts to adjust capacity in their operations in light of deteriorating market conditions, which were exacerbated by the September 11 terrorist attacks in the U.S. This resulted in \$57 million of expenses, primarily related to employee severance costs.

Furthermore, as part of the reorganization of the Global Private Banking business described on [page 26](#), a \$38 million writedown of

goodwill relating to Connor Clark Limited was recorded and this expense was included in total amortization of goodwill and other intangibles. Connor Clark, a high net worth private client business, was acquired in 1999.

Excluding these employee benefit, downsizing and goodwill write-down costs, and the non-interest expenses recorded during the year for recent acquisitions, adjusted operating non-interest expenses would have been down \$167 million or 2%, as shown in the table below. Wealth Management would have been down \$139 million or 8%, Corporate & Investment Banking down \$49 million or 3%, Personal & Commercial Banking down \$16 million or .4%, Transaction Processing up \$17 million or 4% and Insurance up \$23 million or 14%. The increases in Transaction Processing and Insurance reflect the growth in their businesses. The reductions in Wealth Management and Corporate & Investment Banking largely reflect lower variable compensation in the weaker capital markets environment and cost control efforts, while the decline in Personal & Commercial Banking's expenses reflects ongoing success with its cost control initiatives implemented in 1999 and 2000.

On this same basis (i.e., excluding all of the above-mentioned costs) human resource costs would have been down 8%, occupancy costs up 7%, professional fees up 14%, amortization of goodwill and other intangibles costs up 22% and other costs up 48%. The significant increase in other costs is largely related to a change at the beginning of 2001 in the ownership status of Symcor, an outsourcing service provider. Since Symcor is now accounted for as an equity investment, in 2001, \$303 million of Symcor-related costs were included in other non-interest expenses, whereas in 2000, \$264 million of costs relating to Symcor were recorded in a variety of expense categories, primarily in communications, human resources and equipment.

Adjusted non-interest expenses

Adjusted operating non-interest expenses, excluding acquisitions, down 2% from 2000 (C\$ millions, except percentage amounts)

	2001	2000	2001 vs 2000 Increase (decrease)	
Non-interest expenses	\$ 9,641	\$ 7,628	\$ 2,013	26%
Less: Special items (1)	(91)	–	(91)	
Core non-interest expenses	9,550	7,628	1,922	25
Less: Costs of Stock Appreciation Rights	(23)	(52)	29	
RBC Dain Rauscher retention compensation	(176)	–	(176)	
Operating non-interest expenses	9,351	7,576	1,775	23
Less: Non-interest expenses of recent acquisitions (2)	(1,823)	(63)	(1,760)	
Operating non-interest expenses, excluding acquisitions	7,528	7,513	15	–
Less: Significant 2001 expenses (3)	(182)	–	(182)	
Adjusted operating non-interest expenses, excluding acquisitions	\$ 7,346	\$ 7,513	\$ (167)	(2)%

(1) Shown in [Table 4 on page 20](#).

(2) Represents non-interest expenses incurred by recently acquired companies (Centura, Liberty, Dain Rauscher and Prism Financial) and excludes retention compensation and cost-cutting expenses already deducted to calculate operating non-interest expenses.

(3) Consists of \$87 million of human resource benefit costs, \$57 million of expenses related to cost cutting and a \$38 million writedown of goodwill, all described above.

Outlook

In 2002, the bank expects to grow operating expenses at a lower rate than operating revenues.

TABLE 11 Non-interest expenses

(C\$ millions, except percentage amounts)	2001	2000	1999	2001 vs 2000 Increase (decrease)	
Human resources					
Salaries	\$ 3,060	\$ 2,496	\$ 2,594	\$ 564	23%
Variable compensation	1,897	1,662	927	235	14
Benefits	717	537	511	180	34
	5,674	4,695	4,032	979	21
Occupancy					
Net premises rent	553	384	262	169	44
Premises repairs and maintenance	55	68	88	(13)	(19)
Depreciation	91	81	92	10	12
Property taxes	6	15	41	(9)	(60)
Energy	11	22	33	(11)	(50)
	716	570	516	146	26
Equipment					
Office and computer rental and maintenance	375	376	376	(1)	–
Depreciation	296	288	297	8	3
	671	664	673	7	1
Communications					
Telecommunication	283	225	225	58	26
Marketing and public relations	180	173	182	7	4
Postage and courier	108	170	157	(62)	(36)
Stationery and printing	108	127	129	(19)	(15)
	679	695	693	(16)	(2)
Professional fees	390	267	274	123	46
Amortization of goodwill and other intangibles	288	91	70	197	216
Other					
Business and capital taxes	171	134	114	37	28
Deposit insurance	30	30	71	–	–
Travel and relocation	121	85	90	36	42
Employee training	43	38	48	5	13
Donations	35	26	29	9	35
Other	732	333	361	399	120
	1,132	646	713	486	75
Total core	9,550	7,628	6,971	1,922	25
Special items (1)	91	–	170	91	n.m.
Total	\$ 9,641	\$ 7,628	\$ 7,141	\$ 2,013	26%

(1) Special items in 2001 are described in Table 4 on page 20. Special items in 1999 of \$170 million related to a \$153 million restructuring charge and other charges aggregating \$17 million.
n.m. not meaningful

Focus on cost control

The bank is sustaining its focus on cost control, and a number of cost-saving measures initiated in each business segment in 2001 will continue into 2002 and 2003.

Personal & Commercial Banking intends to sustain flat non-interest expenses, offsetting expenses associated with increased volumes and new initiatives with cost reductions. There are four parts to this strategy:

- Eliminating duplication and other process inefficiencies. As an example, in August 2001, the credit card business was integrated into Personal & Commercial Banking's product and sales structure
- Strengthening electronic and other low-cost delivery capabilities
- Optimizing the physical network. Since 1993, Personal & Commercial Banking has streamlined its physical network, with a net reduction of over 400 service delivery units. At the same time, it has implemented an urban, suburban and rural branch configuration strategy, complemented by selective in-store banking facilities and agencies on First Nations reserves, to ensure that branches are responsive to the different needs in different markets
- Pursuing outsourcing/co-sourcing and divestiture opportunities. During the first quarter of 2001, Personal & Commercial Banking outsourced its automated banking machine operations to NCR and also created Moneris Solutions, a joint venture with Bank of Montreal that is focused on merchant card acquiring business

Additionally, RBC Centura, acquired in 2001, plans to continue achieving cost savings in the U.S. retail banking platform. RBC Centura has set itself the medium-term (3–5 year) goal of expense growth in the 3–4% range, below their target revenue growth rate of 6–8%. Annual expense savings of US\$70 million are to be generated from the consolidation of Security First Network Bank's back-office and call centre operations into RBC Centura in mid-August 2001, from utilizing the buying power of the bank and by combining the human resource, finance and marketing functions of RBC Centura, RBC Prism Mortgage and RBC Builder Finance into one central location during 2002.

A major focus for the Insurance segment is to integrate systems and business processes both within Canada and the U.S. Integration opportunities are largely technology-based. Insurance is already leveraging eBusiness capabilities to both increase revenue and reduce costs by selling travel insurance, and by providing home & auto insurance quotes and personal accident life insurance quotes on the Internet to Canadian clients.

RBC Liberty Insurance in the U.S. is focusing on expense reductions and is working to centralize information technology infrastructures, consolidate applications software within the platform and reduce overhead costs.

Wealth Management's cost-cutting program, initiated in 2001 to offset market weakness, will continue into 2002. In October 2001, the segment combined the RBC Private Counsel and the Canadian personal trust and private banking businesses with Global Private Banking to provide clients with more valuable offerings and to create operational efficiencies. Additionally, Action Direct's (self-directed brokerage) capacity was adjusted for current market conditions. The segment is now targeting savings in technology, marketing and operations across all business units and continues to look at other ways to permanently reduce non-interest expense.

The U.S. Wealth Management platform, RBC Dain Rauscher, is focusing on the integration of the Tucker Anthony Sutro acquisition, which closed on October 31, 2001. Over US\$60 million in annual cost savings have been targeted, with over 50% of those savings expected to be achieved in 2002 and the remainder in 2003. There are a variety of

initiatives that are being pursued to achieve these savings, including reducing overlapping positions and leveraging scale opportunities that already exist in RBC Dain Rauscher's platform.

Corporate & Investment Banking continues to view cost control as a critical priority. For example, the segment managed to keep its staff count flat during 1998–2000, despite adding almost 120 personnel in new initiatives. The growth of 413 personnel in 2001 largely reflected acquisitions. Over the last two quarters of 2001, Corporate & Investment Banking began cutting costs and, with the events of September 11, accelerated its efforts. This cost cutting will be achieved by reviewing all levels of the organization, but will primarily be directed at downsizing the Capital Markets Services business.

The Transaction Processing segment has a relatively high fixed cost base, is a scale business and is targeting continuing improvements in operating efficiency. The key levers to achieve this are continuing technology investments and revenue growth. Greater volumes are expected to be achieved through both organic revenue growth and selective acquisitions, which should also provide opportunities for cost savings through integration.

TABLE 12	Taxes		
(C\$ millions, except percentage amounts)			
	2001	2000	1999
Income taxes			
Consolidated statement of income	\$ 1,350	\$ 1,412	\$ 974
Taxable equivalent adjustment	32	28	35
	1,382	1,440	1,009
Other taxes			
Goods and services and sales taxes	221	208	187
Payroll taxes	237	188	176
Provincial capital taxes	146	108	98
Property taxes (1)	6	16	55
Business taxes	25	26	16
Insurance premium taxes	21	11	6
	656	557	538
Total	\$ 2,038	\$ 1,997	\$ 1,547
Effective income tax rate (2)	34.7%	38.8%	36.0%
Effective total tax rate (3)	44.5%	47.3%	47.2%

(1) Includes amounts netted against non-interest revenue regarding investment properties.

(2) Income taxes reported in the consolidated statement of income, as a percentage of net income before income taxes.

(3) Total income taxes and other taxes as a percentage of net income before income taxes and other taxes expressed on a taxable equivalent basis.

Income and other taxes

Income and other taxes shown in Table 12 above were \$2.0 billion in 2001, comprising income taxes of \$1,382 million (including a taxable equivalent adjustment) and other taxes of \$656 million. Income taxes declined by \$58 million from 2000, largely due to decreases in tax rates. Other taxes were up \$99 million as a result of higher goods and services tax and sales taxes, payroll taxes and provincial capital taxes.

As shown above, the effective income tax rate decreased from 38.8% in 2000 to 34.7% in 2001, reflecting a reduction in federal and provincial tax rates in Canada as well as lower tax rates applicable to special items discussed in [Table 4 on page 20](#).

In addition to the income and other taxes reported in the consolidated statement of income, the bank recorded income tax benefits of \$451 million in 2001 (\$17 million in 2000) in shareholders' equity as shown in note 10 of the consolidated financial statements.

Financial priority: Balance sheet and capital management

Highlights

- Strong growth in consumer loans of 9%
- Deposits up 14%, partially due to the acquisition of Centura Banks, Inc.
- Issued \$3.9 billion, and repurchased \$500 million, of common shares
- Issued \$250 million, and redeemed \$300 million, of preferred shares
- Issued \$1 billion, and redeemed US\$350 million, of subordinated debentures
- Issued \$750 million of innovative Tier 1 capital (RBC TruCS™)
- Internally generated capital of \$1.4 billion

Total assets were \$362 billion at October 31, 2001, up \$68 billion or 23% from October 31, 2000, with RBC Centura (acquired in June 2001) accounting for \$22 billion of the increase.

Total loans (before deducting the allowance for loan losses) were up \$13.3 billion or 8% from October 31, 2000, with consumer loans (residential mortgage, personal and credit card loans) up \$8.6 billion or 9%, with RBC Centura contributing \$4.3 billion of this increase. Residential mortgages were up \$4.5 billion or 7% (net of \$800 million of mortgage securitizations during the year) and personal loans were up \$4.5 billion or 16%. RBC Centura contributed \$1.2 billion and \$3.0 billion, respectively, to these increases. Credit card balances decreased \$380 million or 8%, as credit card securitizations of \$1.0 billion more than offset growth of \$620 million, including \$130 million of card balances in RBC Centura. Business and government loans and acceptances were up \$4.7 billion or 7%, but were down \$3.6 billion or 5% excluding RBC Centura, largely reflecting reductions in the Canadian small business and U.S. corporate loan portfolios.

Total deposits were \$236 billion, up \$29.5 billion or 14% from October 31, 2000, with RBC Centura contributing \$11.6 billion of the increase. Interest-bearing deposits were up \$27.5 billion and non-interest-bearing deposits up \$2.0 billion (\$17.7 billion and \$180 million, respectively, excluding RBC Centura). Personal deposits were up \$11.7 billion or 13% and business and government deposits up \$13.1 billion or 14% (\$3.5 billion or 4% and \$9.7 billion or 10%, respectively, excluding RBC Centura). Further details on deposits are provided in [Table 24 on page 55](#).

RBC Capital Trust, a closed-end trust, issued a second series of transferable trust units (RBC TruCS) in 2001 for \$750 million, bringing the outstanding total to \$1.4 billion. RBC TruCS are reported as a non-controlling interest in subsidiaries on the consolidated balance sheet, and are included in Tier 1 capital under guidelines issued by the Superintendent of Financial Institutions Canada (OSFI).

Total balance sheet capital, which includes shareholders' equity and subordinated debentures, was \$24.9 billion at October 31, 2001, up \$5.7 billion or 30% from a year ago. The most significant factors behind the increase in capital over 2000 were net external capital financing of \$3.9 billion and internal capital generation of \$1.4 billion during 2001.

Capital management

Capital management requires balancing the desires for strong capital ratios and maintaining high debt ratings with the need to also provide competitive returns to shareholders. In striving for this balance, the bank considers expected levels of risk-adjusted assets and balance sheet assets, future investment plans and the costs and terms of current and potential capital issues.

The bank is committed to maintaining strong capital ratios through internal capital generation, the issuance of capital instruments when appropriate, and controlled growth in risk-adjusted assets. The significant capital management activity table on [page 40](#) details the bank's capital activities during the year. These were undertaken to manage the bank's capital structure as it implemented its strategies.

Regulatory capital

Capital levels for Canadian banks are regulated pursuant to guidelines issued by OSFI, based on standards issued by the Bank for International Settlements (BIS) and Canadian GAAP financial information.

Regulatory capital, which differs from capital recorded on the consolidated balance sheet, is allocated into two tiers. Tier 1 capital comprises the more permanent component of capital. The components of Tier 1 and Tier 2 capital are shown in [Table 13 on page 41](#).

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets. Risk-adjusted assets, as shown in [Table 14 on page 42](#), are determined by applying prescribed risk weights to balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. Risk-adjusted assets also include an amount for the market risk exposure associated with the bank's trading portfolio.

The bank's policy is to remain well capitalized so as to provide a safety net for the variety of risks that it is exposed to in the conduct of its business. In 1999, OSFI formally established risk-based capital targets for deposit-taking institutions in Canada. These targets are a Tier 1 capital ratio of at least 7% and a Total capital ratio of at least 10%. As at October 31, 2001, the bank's Tier 1 and Total capital ratios were 8.7% and 11.8%, respectively, compared to 8.6% and 12.0% at October 31, 2000. Despite paying \$7.0 billion for U.S. acquisitions in 2001 (see note 2 of the consolidated financial statements on pages 65 and 66), the bank maintained capital ratios that were consistent with its medium-term goals (shown on page 6). The bank's capital ratios on a U.S. basis, calculated using guidelines issued to U.S. banks by the

Board of Governors of the Federal Reserve System and using U.S. GAAP financial information, are provided in [Table 13 on page 41](#).

Pending developments

In 1999, BIS issued a proposal for a new capital adequacy framework to replace the previous Capital Accord of 1988, under which the bank is currently regulated. This proposal continues to be at the discussion phase subsequent to the issue of a second consultative paper in January 2001. It is difficult at this stage to estimate the impact of these proposed amendments on the bank's regulatory capital requirements. Implementation of the final proposals is not likely to occur prior to 2005.

Significant capital management activity in 2001 ⁽¹⁾

(C\$ millions)

Capital market activity

Common shares

December 2000, issued common equity	\$ 576
June 2001, issued common equity in exchange for all the outstanding shares of Centura Banks, Inc.	3,317
June 2001, commenced repurchase of common shares ⁽²⁾	(509)

Preferred shares ⁽³⁾

June 2001, issued perpetual Non-cumulative First Preferred Shares Series S	250
August 2001, redeemed all of the Non-cumulative First Preferred Shares Series H	(300)

Subordinated debentures ⁽⁴⁾

January 2001, issued subordinated debentures	500
February 2001, issued subordinated debentures	125
April 2001, issued subordinated debentures	400
May 2001, redeemed US\$350 million floating-rate debentures	(538)

Innovative Tier 1 capital (RBC TruCS)

December 2000, issued a second series of RBC TruCS	750
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\$ 4,571

Other activity

Share capital

In the second quarter, the limit on the maximum aggregate consideration for which common shares may be issued was removed and the limit on the maximum aggregate consideration for which first preferred shares may be issued was increased from \$5 billion to \$10 billion. The limit on the maximum aggregate consideration for which second preferred shares may be issued remains unchanged at \$5 billion.

(1) Gross amounts before issuance costs.

(2) Under a normal course issuer bid to purchase up to 18 million common shares through the facilities of The Toronto Stock Exchange. By October 31, 2001, the bank had repurchased 10.9 million common shares. The program will be in effect for a period of one year from June 22, 2001.

(3) On November 26, 2001, the bank redeemed US\$200 million of Non-cumulative First Preferred Shares Series I.

(4) On November 8, 2001, the bank issued US\$400 million of subordinated debentures through the European Medium Term Note Programme.

TABLE 13 Capital ratios (1)

(C\$ millions, except percentage amounts)	2001	2000	1999
Tier 1 capital			
Common equity	\$ 16,141	\$ 11,504	\$ 10,606
Non-cumulative preferred shares	2,024	2,037	2,009
Non-controlling interest in subsidiaries			
RBC TruCS	1,400	650	–
Other	28	23	22
Goodwill	(4,742)	(647)	(611)
	14,851	13,567	12,026
Tier 2 capital			
Permanent subordinated debentures	477	457	441
Other subordinated debentures (2)	5,935	5,138	4,040
General allowance (3)	1,410	1,188	1,080
Non-controlling interest in subsidiaries	–	1	2
	7,822	6,784	5,563
Investment in insurance subsidiaries	(2,107)	(960)	(672)
Other substantial investments	(387)	(342)	(219)
First loss facility	(8)	(5)	–
Total capital	\$ 20,171	\$ 19,044	\$ 16,698
Risk-adjusted assets	\$ 171,047	\$ 158,364	\$ 149,078
Capital ratios (4)			
Common equity to risk-adjusted assets	9.4%	7.3%	7.1%
Tier 1 capital to risk-adjusted assets	8.7%	8.6%	8.1%
Total capital to risk-adjusted assets	11.8%	12.0%	11.2%
Assets-to-capital multiple (5)	17.2	15.3	16.5
U.S. basis (4), (6)			
Tier 1 capital to risk-adjusted assets	8.1%	7.8%	7.6%
Total capital to risk-adjusted assets	11.2%	11.3%	10.7%
Equity to assets (7)	5.3%	4.5%	4.6%
Tier 1 leverage (8)	4.1%	4.2%	4.1%

(1) Using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information except as noted in footnote (6).

(2) Subordinated debentures that are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.

(3) The general allowance for credit losses may be included in Tier 2 capital up to a maximum of .875% (2000 and 1999 – .75%) of risk-adjusted assets. On October 27, 2000, the bank entered into a five-year agreement with a AAA rated reinsurer, which requires the reinsurer to purchase up to \$200 million of non-cumulative first preferred shares at the October 27, 2000 market price should the general allowance for credit losses be drawn down below a certain level. If these shares had been issued they would have qualified as Tier 1 capital.

(4) On November 26, 2001, the bank redeemed US\$200 million of Non-cumulative First Preferred Shares Series I, which will reduce Tier 1 capital by the same amount. On November 8, 2001, the bank issued US\$400 million of subordinated debentures, which increases Total capital by the same amount. Had these transactions taken place as at October 31, 2001, the pro forma capital ratios would have been: Tier 1 capital ratio – 8.5% and Total capital ratio – 12.0%. Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information, the pro forma U.S. basis capital ratios would have been Tier 1 capital ratio – 7.9% and Total capital ratio – 11.4%.

(5) Total assets and specified off-balance sheet financial instruments, as determined by the Superintendent of Financial Institutions Canada, divided by Total capital.

(6) Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information.

(7) Average total shareholders' equity divided by average total assets.

(8) Tier 1 capital divided by adjusted average assets net of the allowance for credit losses (includes gross derivative-related amounts, goodwill and deferred income taxes).

TABLE 14 Risk-adjusted assets (1)

(C\$ millions, except percentage amounts)	Balance sheet amount	Predominant risk weight (2)	Risk-adjusted balance			
			2001	2000		
Balance sheet assets						
Cash resources	\$ 17,535	20%	\$ 1,515	\$ 2,763		
Securities						
Issued or guaranteed by Canadian or other OECD governments	25,559	0%	–	28		
Other	54,948	100%	7,341	4,081		
Residential mortgages (3)						
Insured	32,012	0%	383	375		
Conventional	35,381	50%	18,511	17,008		
Other loans and acceptances (3)						
Issued or guaranteed by Canadian or other OECD governments	14,134	0%	1,810	1,221		
Other	133,376	100%	97,553	89,523		
Other assets	46,315	0%	6,114	4,664		
	\$ 359,260		\$ 133,227	\$ 119,663		
Off-balance sheet financial instruments						
Credit instruments						
Guarantees and standby letters of credit						
Financial	\$ 10,548	100%	\$ 10,548	\$ 8,758		
Non-financial	2,843	50%	1,422	1,626		
Documentary and commercial letters of credit	750	20%	150	86		
Securities lending	21,377	100%	21,377	417		
Commitments to extend credit						
Original term to maturity of 1 year or less	44,179	0%	–	–		
Original term to maturity of more than 1 year	39,960	50%	19,980	18,856		
Uncommitted amounts	53,750	0%	–	–		
Note issuance/revolving underwriting facilities	132	50%	66	77		
	\$ 173,539		\$ 53,543	\$ 29,479		
				\$ 29,820		
Derivatives (6)						
Interest rate contracts						
Forward rate agreements	\$ 95,678	\$ 108	\$ 543	20%	\$ 114	\$ 3
Swaps	697,902	17,568	21,390	20%	5,617	1,892
Options purchased	19,901	416	538	20%	123	61
	813,481	18,092	22,471		5,854	1,956
Foreign exchange contracts						
Forward contracts	546,436	6,839	12,977	20%	3,881	4,741
Swaps	74,819	1,902	5,536	20%	1,261	1,198
Options purchased	49,154	721	1,339	20%	441	452
	670,409	9,462	19,852		5,583	6,391
Other contracts (7)	37,071	1,227	3,264	50%	986	772
Total derivatives before netting	\$ 1,520,961	28,781	45,587		12,423	9,119
Impact of master netting agreements		(18,832)	(24,450)		(6,339)	(3,713)
Total derivatives after netting		\$ 9,949	21,137		6,084	5,406
Total off-balance sheet financial instruments		\$ 74,680			\$ 35,563	\$ 35,226
General market risk					2,257	3,475
Total risk-adjusted assets					\$ 171,047	\$ 158,364

(1) Using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information.

(2) Represents the predominant counterparty risk-weighting for that category.

(3) Amounts are shown net of allowance for loan losses.

(4) Represents the total current replacement value of all outstanding contracts in a gain position.

(5) Consists of (i) the total positive replacement value of all outstanding contracts, and (ii) an amount for potential future credit exposure.

(6) Futures and some purchased options are traded on exchanges and are subject to daily margin requirements. Such instruments are excluded from the calculation of risk-adjusted assets as they are deemed to have no additional credit risk.

(7) Comprises precious metals, commodity, equity-linked and credit derivative contracts.

Financial priority: Strong credit quality

Highlights

- Nonaccrual loans up 47% to \$2.5 billion
- Nonaccrual loans to total loans of 1.36%, up from 1.00% in 2000
- Provision for credit losses up 62% to \$1.1 billion
- Allocated specific provision ratio of .61%, up from .36%
- Net charge-offs ratio of .55%, versus .42% in 2000
- Allowance for credit losses up \$417 million or 21% to \$2.4 billion

Nonaccrual loans

Loans are generally classified as nonaccrual, meaning interest is not being accrued thereon, under circumstances described in note 1 of the consolidated financial statements on page 62.

As indicated in Table 15 below, nonaccrual loans increased \$787 million from 2000 to \$2,465 million at October 31, 2001. This reflects net additions of \$1,912 million and charge-offs and adjustments of \$1,125 million.

As shown in Table 20 on page 49, nonaccrual loans in the United States increased \$481 million. Business and government loans accounted for \$442 million of this increase, with \$272 million of this amount relating to six corporate clients in the U.S. telecommunication sector. U.S. commercial real estate and information technology sectors also experienced higher nonaccrual loans, partially offset by a decrease in the U.S. industrial products sector. RBC Centura's nonaccrual business and government loans were \$103 million.

As shown in Table 16 on page 45, nonaccrual loans in Canada were up \$254 million, comprising an increase of \$234 million in business and government loans (mainly the transportation and environmental and agricultural sectors) and an increase of \$20 million in consumer loans. The latter resulted from a \$63 million increase in the personal portfolio and a \$43 million decrease in the residential mortgage portfolio.

International nonaccrual loans (excluding the United States, discussed above) were \$216 million, up \$52 million from last year. Most of this increase is attributable to the transportation and environmental sector.

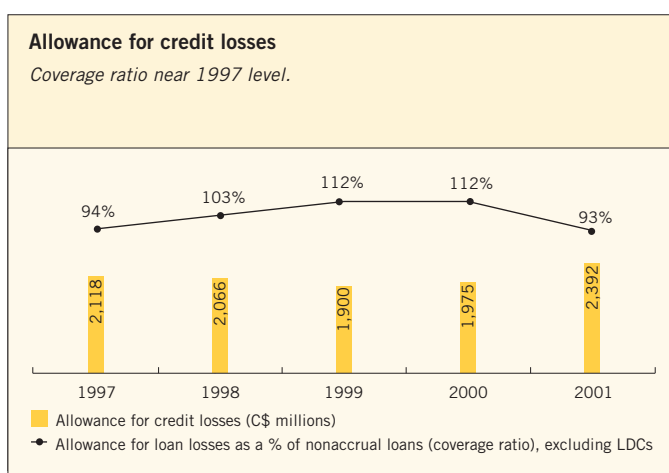
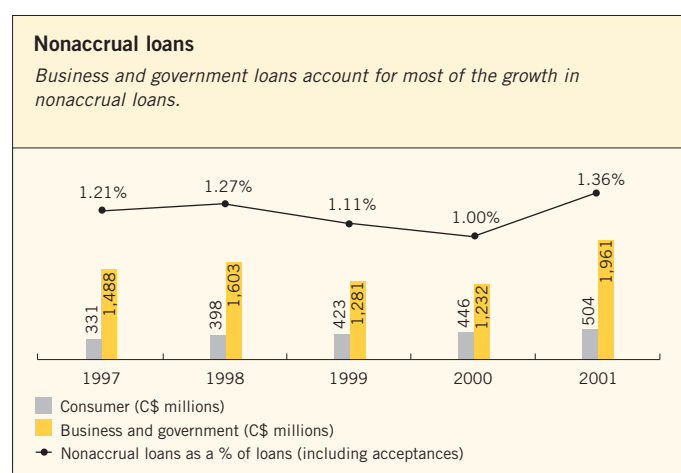
As a percentage of related loans (before deducting the allowance for loan losses), nonaccrual loans increased to 1.36% from 1.00% in 2000.

Outlook

The North American economy is expected to remain weak through the first half of calendar 2002 but to begin to recover in the second half. Based on this forecast, the level of nonaccrual loans is not expected to increase significantly in fiscal 2002.

TABLE 15 Change in nonaccrual loans

(C\$ millions)	2001	2000	1999	1998	1997
Nonaccrual loans at beginning of year	\$ 1,678	\$ 1,704	\$ 2,001	\$ 1,819	\$ 2,376
Additions	2,067	1,146	990	1,271	705
Reductions	(155)	(333)	(247)	(643)	(624)
	1,912	813	743	628	81
Charge-offs and adjustments	(1,125)	(839)	(1,040)	(446)	(638)
Nonaccrual loans at end of year	\$ 2,465	\$ 1,678	\$ 1,704	\$ 2,001	\$ 1,819



Provision for credit losses

The provision for credit losses is charged to income by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management, as discussed in the Allowance for credit losses section below.

The provision for credit losses was \$1,119 million in 2001, up \$428 million or 62% from 2000, as shown in [Table 17 on page 46](#).

As shown in [Table 20 on page 49](#), in the United States, the allocated specific provision increased \$278 million. Well over 90% of this increase was within the business and government portfolio and relating to six corporate clients in the U.S. telecommunication sector. There was also an increase in the U.S. commercial real estate sector and reductions in the U.S. transportation and environmental and U.S. industrial products sectors.

As shown in [Table 17 on page 46](#), in Canada, allocated specific provisions for credit losses increased \$163 million. A \$168 million increase in the business and government provisions resulted from increases in the small business, forest products, energy and commercial real estate sectors that more than offset a reduction in the transportation and environmental sector. A \$5 million net decrease in consumer provisions resulted from a decline in personal loan provisions, partially offset by small increases in residential mortgage and credit card provisions.

The allocated specific provisions amounted to .52% of average loans (including bankers' acceptances and reverse repurchase agreements), up from .31% in 2000. Under Canadian GAAP, the specific provision for credit losses ratio was .53%, up from .32% in 2000 and compared to a goal of .30–.40% for 2001.

Outlook

In light of the weak economy expected in the first half of calendar 2002, the bank expects a ratio of specific provisions for credit losses to average loans (including reverse repurchase agreements) and bankers' acceptances of .45–.55% (using Canadian GAAP) in fiscal 2002.

Allowance for credit losses

The allowance for credit losses is maintained at a level that management believes is sufficient to absorb probable losses in the loan and off-balance sheet portfolios. The individual elements as well as the overall allowance are evaluated on a quarterly basis. This evaluation is based on continuing assessments of problem accounts, recent loss experience and changes in other factors, including the composition and quality of the portfolio, economic conditions and regulatory requirements. The allowance is increased by the provision for credit losses, which is charged to income, and decreased by the amount of charge-offs net of recoveries.

The determination of the allowance for credit losses is based upon estimates derived from historical analysis, adjusted for management's judgment relating to current assumptions. Therefore, the allowance for credit losses will inevitably differ from actual losses incurred in the future. To minimize these differences, management assesses the methodology and all significant assumptions on a regular basis.

As shown in [Table 18 on page 47](#), the allowance for credit losses increased \$417 million between 2000 and 2001.

Net charge-offs increased \$263 million to \$940 million in 2001. This is due to increases of \$88 million in Canada and \$175 million internationally. The vast majority of these increases result from charge-offs in the business and government portfolios in Canada and internationally.

The allowance for credit losses comprises four components – allocated specific, allocated country risk, allocated general and unallocated – as described in note 1 of the consolidated financial statements on page 62.

Allocated specific

Allocated specific allowances are maintained to provide for the most likely losses on loans that have become nonaccrual. Allocated specific allowances for business and government loans are established on an individual borrower basis. Allocated specific allowances for residential mortgages, personal loans and small business loans are determined on a portfolio basis using historical loss experiences on nonaccrual loans. No allocated specific allowance is maintained for credit cards, as these balances are charged off after 180 days if no payment has been received.

Allocated country risk

Allocated country risk allowances are maintained with respect to exposures to certain less developed countries (LDCs) based on an overall assessment of the outstanding exposure and underlying economic conditions in those countries.

Allocated general

The allocated general allowance reflects the best estimate of probable losses that exist within that portion of the portfolio that has not yet been specifically identified as nonaccrual. This amount is determined based on the application of statistical expected loss factors to outstanding and undrawn facilities. The expected loss factors have been determined by assessing statistical loss migrations, adjusted to reflect management's judgment regarding items that impact the quality of the portfolio.

Unallocated

The unallocated general allowance is determined through management's assessment of probable losses that are in the portfolio but not adequately captured in the determination of the allocated specific, allocated country risk and allocated general allowances. This assessment includes consideration of current economic and business conditions and regulatory requirements affecting key lending operations. It also reflects management's acknowledgement of the imprecise and subjective elements involved in modelling credit risk.

In addition to the above allowances, the bank entered into a five-year agreement in October 2000, with a AAA rated reinsurer to provide capital if exceptional losses occur in the bank's loan portfolio. The agreement requires the reinsurer to purchase up to \$200 million in non-cumulative first preferred shares at the October 27, 2000 market price should the general allowance for credit losses (allocated general and unallocated allowances) be drawn below a certain level. In management's view, if these shares had been issued currently, based on existing regulatory guidelines, they would qualify as Tier 1 capital. The sale of the securities would mitigate the impact of loan losses on the capital base of the bank through the replenishment of capital.

TABLE 16 Nonaccrual loans

(C\$ millions, except percentage amounts)

	2001	2000	1999	1998	1997
Canada					
Atlantic provinces	\$ 124	\$ 115	\$ 77	\$ 60	\$ 64
Quebec	282	198	259	261	378
Ontario	621	572	438	543	583
Prairie provinces	143	129	198	161	369
British Columbia	453	355	415	485	83
Total Canada	1,623	1,369	1,387	1,510	1,477
Consumer					
Residential mortgage	142	185	173	166	166
Personal	310	247	236	217	153
	452	432	409	383	319
Business and government					
Small business (1)	261	248	232	130	144
Agriculture (1)	111	53	62	47	46
Energy	27	-	38	6	2
Financial services	7	20	16	121	8
Commercial mortgages	22	16	25	22	43
Consumer goods	11	37	43	55	43
Commercial real estate	95	90	186	182	348
Industrial products	45	28	19	25	68
Transportation and environmental	274	185	21	13	287
Media and cable	43	36	42	29	6
Forest products	195	184	233	383	79
Automotive	18	5	1	1	-
Telecommunication	-	-	2	1	-
Information technology	11	8	13	13	12
Other	51	27	45	99	72
	1,171	937	978	1,127	1,158
Total Canada	1,623	1,369	1,387	1,510	1,477
International					
United States	626	145	41	18	42
Europe	79	46	58	59	43
Caribbean	55	48	47	62	71
Latin America	14	9	10	4	20
Asia	37	33	127	308	132
	811	281	283	451	308
LDCs	31	28	34	40	34
Total international	842	309	317	491	342
Consumer					
Residential mortgage	37	14	14	15	12
Personal	15	-	-	-	-
	52	14	14	15	12
Business and government					
Energy	3	14	23	31	14
Financial services	83	41	89	90	46
Consumer goods	19	2	18	119	115
Commercial real estate	81	4	5	12	31
Industrial products	10	83	38	76	30
Transportation and environmental	91	56	-	1	3
Automotive	33	-	5	43	4
Telecommunication	272	-	-	-	-
Information technology	76	-	-	-	-
Other	122	95	125	104	87
	790	295	303	476	330
Total international	842	309	317	491	342
Total (2), (3)	\$ 2,465	\$ 1,678	\$ 1,704	\$ 2,001	\$ 1,819
Nonaccrual loans as a % of related loans (including acceptances) (4)					
Canada					
Residential mortgage	.22%	.30%	.30%	.30%	.31%
Personal	1.14	.91	.97	.99	.76
Business and government loans and acceptances	2.75	1.97	2.24	2.52	2.72
	1.18	.97	1.07	1.21	1.25
International	1.95	1.15	1.28	1.49	1.07
Total	1.36%	1.00%	1.11%	1.27%	1.21%

(1) Includes government guaranteed portions of nonaccrual loans of \$95 million in small business in 2001 (2000 - \$101 million; 1999 - \$79 million) and \$6 million in agriculture (2000 - \$6 million; 1999 - \$5 million). Prior to 1999, only the non-guaranteed portion was considered nonaccrual.

(2) Includes foreclosed assets of \$37 million in 2001 (2000 - \$20 million; 1999 - \$26 million; 1998 - \$28 million; and 1997 - \$45 million).

(3) Past due loans not included in nonaccrual loans was \$245 million in 2001.

(4) Loans in Canada include all loans booked in Canada, regardless of currency or residence of borrower.

TABLE 17	Provision for credit losses				
(C\$ millions, except percentage amounts)	2001	2000	1999	1998	1997
Canada					
Atlantic provinces	\$ 63	\$ 58	\$ 32	\$ 35	\$ 37
Quebec	43	22	71	63	149
Ontario	398	342	52	144	13
Prairie provinces	81	64	95	53	29
British Columbia	104	40	192	132	37
Total Canada	689	526	442	427	265
Consumer					
Residential mortgage	8	–	4	9	12
Personal	265	301	172	171	114
Credit card	125	102	55	28	65
	398	403	231	208	191
Business and government					
Small business	164	105	113	48	51
Agriculture	20	4	2	4	1
Energy	17	(8)	12	1	(1)
Financial services	(9)	–	5	113	1
Commercial mortgages	7	2	8	6	18
Consumer goods	2	7	11	23	(29)
Commercial real estate	15	(17)	9	(30)	(78)
Industrial products	14	2	(10)	(6)	12
Transportation and environmental	13	56	7	(27)	(9)
Media and cable	13	12	8	4	4
Forest products	7	(36)	81	76	86
Automotive	17	–	–	–	–
Telecommunication	–	(1)	(32)	(29)	–
Information technology	3	8	8	5	1
Other	8	(11)	(11)	31	17
	291	123	211	219	74
Total Canada	689	526	442	427	265
International					
United States	377	99	45	(7)	(8)
Europe	(1)	(9)	21	10	(24)
Caribbean	(6)	3	–	3	7
Latin America	5	2	2	(2)	7
Asia	(19)	(50)	20	124	83
Australia and New Zealand	4	–	–	–	–
Total international	360	45	88	128	65
Consumer					
Residential mortgage	–	–	1	1	–
Personal	5	–	–	–	–
Credit card	2	–	–	–	–
	7	–	1	1	–
Business and government					
Energy	(8)	(2)	–	21	4
Financial services	(3)	(21)	2	36	(2)
Consumer goods	–	(7)	(10)	(5)	46
Commercial real estate	65	1	2	(2)	(1)
Industrial products	3	34	31	9	5
Transportation and environmental	8	42	–	(1)	1
Media and cable	3	–	–	–	–
Automotive	7	(8)	(2)	29	–
Telecommunication	272	–	–	–	–
Information technology	7	–	3	–	–
Other	(1)	6	61	40	12
	353	45	87	127	65
Total international	360	45	88	128	65
Allocated specific provision	1,049	571	530	555	330
Allocated country risk provision	–	–	–	(80)	–
Allocated general provision (1)	205	73	n.a.	n.a.	n.a.
Total allocated provision (1)	1,254	644	n.a.	n.a.	n.a.
Unallocated provision (1)	(135)	47	n.a.	n.a.	n.a.
Total	\$ 1,119	\$ 691	\$ 760	\$ 575	\$ 380
As a % of related average loans (including acceptances)					
Canada					
Residential mortgage	.01%	–%	.01%	.02%	.02%
Personal	.94	1.12	.71	.76	.59
Credit card	2.73	2.87	2.39	1.39	1.84
Business and government loans and acceptances	.67	.28	.49	.51	.19
	.50	.39	.35	.35	.24
International	1.08	.18	.31	.37	.22
Total allocated specific provision	.61%	.36%	.34%	.36%	.23%
Total provision for credit losses	.65%	.43%	.49%	.37%	.27%
As a % of average loans (including acceptances) and reverse repurchase agreements					
Total allocated specific provision	.52%	.31%	.30%	.31%	.21%
Total provision for credit losses	.55%	.38%	.43%	.32%	.24%

(1) The allocated general provision and the unallocated provision totalled \$230 million in 1999, \$100 million in 1998 and \$50 million in 1997. These were not separated into the allocated general and unallocated components.

TABLE 18 Allowance for credit losses

(C\$ millions, except percentage amounts)	2001	2000	1999	1998	1997
Allowance at beginning of year	\$ 1,975	\$ 1,900	\$ 2,066	\$ 2,118	\$ 2,235
Provision for credit losses	1,119	691	760	575	380
Charge-offs					
Canada					
Residential mortgage	(15)	(11)	(14)	(17)	(34)
Personal	(394)	(372)	(236)	(163)	(138)
Credit card	(169)	(150)	(65)	(52)	(98)
Business and government	(296)	(225)	(524)	(250)	(361)
	(874)	(758)	(839)	(482)	(631)
International, excluding LDCs					
Residential mortgage	(9)	–	–	–	–
Personal	(7)	–	–	–	–
Credit card	(2)	–	–	–	–
Business and government	(233)	(81)	(229)	(29)	(28)
LDC exposures	–	–	(4)	(325)	(10)
	(251)	(81)	(233)	(354)	(38)
	(1,125)	(839)	(1,072)	(836)	(669)
Recoveries					
Canada					
Residential mortgage	–	–	2	6	9
Personal	66	44	31	26	21
Credit card	44	48	10	24	32
Business and government	58	48	66	80	62
	168	140	109	136	124
International, excluding LDCs					
Personal	1	–	–	–	–
Business and government	16	22	5	8	17
	17	22	5	8	17
	185	162	114	144	141
Net charge-offs	(940)	(677)	(958)	(692)	(528)
Acquisition of Centura Banks, Inc.	157				
Adjustments	81	61	32	65	31
Allowance at end of year	\$ 2,392	\$ 1,975	\$ 1,900	\$ 2,066	\$ 2,118
Net charge-offs (excluding LDCs) as a % of average loans	.55%	.42%	.61%	.24%	.36%
Net charge-offs as a % of average loans	.55%	.42%	.62%	.45%	.37%
Allocation of allowance (1)					
Canada					
Residential mortgage	\$ 45	\$ 46	\$ 53	\$ 50	\$ 52
Personal	447	403	344	156	92
Credit card	147	88	60	–	–
Business and government	791	664	748	604	562
	1,430	1,201	1,205	810	706
International, excluding LDCs					
Residential mortgage	4	11	9	7	6
Personal	33	–	–	–	–
Credit card	5	–	–	–	–
Business and government	581	322	380	359	307
	623	333	389	366	313
Allocated allowance for loan losses (2)	2,053	1,534	1,594	n.a.	n.a.
Unallocated allowance for loan losses (2)	225	337	290	n.a.	n.a.
Total allowance for loan losses	2,278	1,871	1,884	2,026	1,769
Allowance for off-balance sheet and other items (3)	109	98	–	–	–
Allowance for tax-exempt securities	5	6	16	40	30
Allowance for country risk securities	–	–	–	–	319
Total allowance for credit losses	\$ 2,392	\$ 1,975	\$ 1,900	\$ 2,066	\$ 2,118
Composition of allowance					
Allocated specific	\$ 951	\$ 747	\$ 786	\$ 1,176	\$ 932
Allocated country risk	31	28	34	40	436
Allocated general (2), (4)	1,185	863	790	n.a.	n.a.
Total allocated allowance for credit losses (2)	2,167	1,638	1,610	n.a.	n.a.
Unallocated allowance for credit losses (2)	225	337	290	n.a.	n.a.
Total allowance for credit losses	\$ 2,392	\$ 1,975	\$ 1,900	\$ 2,066	\$ 2,118
Percentage of loans to total loans					
Canada					
Residential mortgage	35%	37%	38%	36%	35%
Personal	15	16	16	14	14
Credit card	2	3	2	1	2
Business and government	24	28	28	28	28
	76	84	84	79	79
International	24	16	16	21	21
Total	100%	100%	100%	100%	100%
Allowance for loan losses as a % of loans (including acceptances)	1.3%	1.1%	1.2%	1.3%	1.2%
Allowance for loan losses as a % of loans (including acceptances) and reverse repurchase agreements	1.0%	1.0%	1.1%	1.1%	1.1%
Allowance for loan losses as a % of nonaccrual loans (coverage ratio), excluding LDCs	93%	112%	112%	103%	94%

- (1) As a result of a change in methodology in 1999, the allowance for loan losses in 2001, 2000 and 1999 includes amounts for the allocated general allowance, which have been allocated to loan categories. These amounts total \$1,076 million (2000 – \$765 million; 1999 – \$790 million) and have been allocated as follows: for Canada – residential mortgage \$21 million (2000 – \$18 million; 1999 – \$11 million), personal \$266 million (2000 – \$207 million; 1999 – \$174 million), credit card \$147 million (2000 – \$88 million; 1999 – \$60 million), business and government \$385 million (2000 – \$321 million; 1999 – \$370 million), and for International – residential mortgage \$2 million (2000 and 1999 – nil), personal \$26 million (2000 and 1999 – nil), credit card \$5 million (2000 and 1999 – nil), business and government \$224 million (2000 – \$131 million; 1999 – \$175 million). The amounts prior to 1999 do not include the allocated general allowance.
- (2) The allocated general and the unallocated allowance totalled \$850 million in 1998 and \$750 million in 1997. These were not separated into the allocated general and unallocated components prior to October 31, 1999.
- (3) Commencing in 2000, the allowance for off-balance sheet and other items was separated and reported under other liabilities. Previously, the amount was included in the allowance for loan losses.
- (4) Includes the allowance for off-balance sheet and other items.

TABLE 19		Loans (1)						
(C\$ millions, except percentage amounts)		2001	2000	1999	1998	1997	2001	1997
Canada								
Atlantic provinces	\$	9,654	\$ 9,690	\$ 8,840	\$ 8,052	\$ 7,714	5.3%	5.2%
Quebec		13,863	16,191	14,936	14,066	14,758	7.7	9.8
Ontario		70,164	60,999	54,724	51,977	48,717	38.8	32.5
Prairie provinces		25,192	29,402	25,521	23,288	22,150	13.9	14.8
British Columbia		22,696	25,118	23,141	22,295	21,646	12.5	14.4
Total Canada		141,569	141,400	127,162	119,678	114,985	78.2	76.7
International								
United States		25,944	13,415	13,060	13,717	12,725	14.3	8.5
Europe, Middle East and Africa		7,918	6,544	6,617	13,174	11,763	4.4	7.8
Caribbean		1,856	2,059	1,502	1,573	1,274	1.0	.9
Latin America		1,680	1,842	2,309	3,875	3,493	.9	2.3
Asia		1,328	1,781	2,417	4,550	5,372	.7	3.6
Australia and New Zealand		805	771	983	825	343	.5	.2
Total international		39,531	26,412	26,888	37,714	34,970	21.8	23.3
Total loans		181,100	167,812	154,050	157,392	149,955	100.0%	100.0%
Allowance for loan losses		(2,278)	(1,871)	(1,884)	(2,026)	(1,769)		
Total	\$	178,822	\$ 165,941	\$ 152,166	\$ 155,366	\$ 148,186		
Canada								
Consumer								
Residential mortgage	\$	64,066	\$ 61,444	\$ 58,524	\$ 55,836	\$ 52,835	35.4%	35.2%
Personal		27,202	27,207	24,353	21,814	20,214	15.0	13.5
Credit card		4,110	4,666	2,666	1,945	2,324	2.3	1.6
		95,378	93,317	85,543	79,595	75,373	52.7	50.3
Business and government loans and acceptances								
Small business (2)		9,788	11,701	10,334	8,452	7,325	5.4	4.9
Agriculture		4,758	4,931	4,217	3,851	3,479	2.6	2.3
Energy		4,293	3,754	3,350	3,442	3,845	2.4	2.6
Financial services		3,010	2,218	1,567	1,718	1,976	1.7	1.2
Commercial mortgages		2,635	2,961	2,635	2,434	2,392	1.4	1.6
Consumer goods		2,447	2,874	2,086	2,802	2,787	1.3	1.9
Commercial real estate		2,325	2,594	2,400	2,523	2,872	1.3	1.9
Industrial products		2,174	2,470	2,301	2,241	2,137	1.2	1.4
Transportation and environmental		2,138	1,519	1,562	1,392	1,481	1.2	1.0
Government		1,597	1,385	2,105	1,951	1,575	.9	1.1
Media and cable (3)		1,510	1,120	1,135	959	-	.8	-
Forest products		1,275	1,362	1,151	1,728	1,976	.7	1.3
Automotive		864	673	611	698	787	.5	.5
Telecommunication		677	1,008	525	361	-	.4	-
Information technology		203	210	191	204	1,340	.1	.9
Other		6,497	7,303	5,449	5,327	5,640	3.6	3.8
		46,191	48,083	41,619	40,083	39,612	25.5	26.4
Total Canada		141,569	141,400	127,162	119,678	114,985	78.2	76.7
International								
Consumer								
Residential mortgage		3,378	1,540	718	632	534	1.9	.4
Personal		5,309	812	902	947	650	2.9	.4
Credit card		173	-	-	-	-	.1	-
		8,860	2,352	1,620	1,579	1,184	4.9	.8
Business and government loans and acceptances								
Energy		2,994	3,051	3,887	4,702	3,877	1.7	2.6
Financial services		9,347	7,912	6,937	10,896	11,359	5.2	7.6
Consumer goods		1,699	1,111	1,411	2,756	2,365	.9	1.6
Commercial real estate		4,082	271	464	862	926	2.2	.6
Industrial products		2,116	1,749	1,325	1,881	2,589	1.2	1.7
Transportation and environmental		1,571	1,487	1,975	2,296	1,762	.8	1.2
Government		128	167	773	492	622	.1	.4
Media and cable (3)		1,380	2,033	1,909	2,270	-	.8	-
Forest products		385	468	549	609	609	.2	.4
Automotive		527	513	878	2,264	1,771	.3	1.2
Telecommunication		1,558	2,244	1,206	1,756	-	.9	-
Information technology		396	433	709	1,212	4,722	.2	3.1
Other		4,488	2,621	3,245	4,139	3,184	2.4	2.1
		30,671	24,060	25,268	36,135	33,786	16.9	22.5
Total international		39,531	26,412	26,888	37,714	34,970	21.8	23.3
Total loans		181,100	167,812	154,050	157,392	149,955	100.0%	100.0%
Allowance for loan losses		(2,278)	(1,871)	(1,884)	(2,026)	(1,769)		
Total	\$	178,822	\$ 165,941	\$ 152,166	\$ 155,366	\$ 148,186		

(1) Based on residence of borrower.

(2) Small business loans in 2001 comprises the following industries: commercial real estate of \$1,788 million; consumer goods of \$1,665 million; industrial products of \$916 million; transportation and environmental of \$605 million; automotive of \$434 million; forest products of \$296 million; energy of \$157 million; information technology of \$133 million; financial services of \$96 million; media and cable of \$84 million; telecommunication of \$45 million; and other of \$3,569 million.

(3) Includes cable loans of \$330 million in Canada in 2001 (2000 - \$262 million; 1999 - \$169 million; 1998 - \$164 million; 1997 - nil) and \$625 million internationally in 2001 (2000 - \$1,321 million; 1999 - \$850 million; 1998 - \$1,221 million; 1997 - nil).

TABLE 20 U.S. loan and loan quality information (1)

(C\$ millions)	Loan balance		Nonaccrual loans		Provision for credit losses	
	2001	2000	2001	2000	2001	2000
Consumer						
Residential mortgage	\$ 2,666	\$ 845	\$ 24	\$ -	\$ 8	\$ -
Personal	4,621	78	15	-	5	-
Credit card	128	-	-	-	2	-
	7,415	923	39	-	15	-
Business and government loans and acceptances						
Energy	1,613	1,582	-	-	-	-
Financial services	4,104	4,521	30	-	7	-
Consumer goods	1,172	435	9	-	2	-
Commercial real estate	3,773	44	81	4	66	2
Industrial products	1,513	1,107	8	68	3	40
Transportation and environmental	788	469	48	56	(4)	42
Government	23	-	-	-	-	-
Media and cable (2)	1,038	1,782	-	-	3	-
Forest products	98	181	-	-	-	-
Automotive	408	221	33	-	6	-
Telecommunication	835	1,131	272	-	272	-
Information technology	299	374	76	-	7	-
Other	2,865	645	30	17	-	15
	18,529	12,492	587	145	362	99
	\$ 25,944	\$ 13,415	\$ 626	\$ 145	\$ 377	\$ 99

(1) Based on residence of borrower.

(2) Includes cable loans of \$455 million (2000 – \$1,162 million).

TABLE 21 Foreign outstandings (1)

(C\$ millions, except percentage amounts)	2001		2000		1999	
		% of total assets		% of total assets		% of total assets
United States – Banks	\$ 7,186		\$ 5,462		\$ 4,208	
Government	3,834		889		486	
Other	49,172		30,034		23,865	
	60,192	16.61%	36,385	12.38%	28,559	10.45%
Western Europe						
United Kingdom – Banks	6,275		4,347		4,960	
Government	153		26		79	
Other	5,256		5,791		4,308	
	11,684	3.22	10,164	3.46	9,347	3.42
France – Banks	2,378		2,379		2,082	
Government	68		45		57	
Other	1,176		1,552		784	
	3,622	1.00	3,976	1.35	2,923	1.07
Germany – Banks	5,952		5,471		5,608	
Government	173		1		291	
Other	559		643		268	
	6,684	1.84	6,115	2.08	6,167	2.26
Netherlands	2,218	.61	1,300	.44	2,060	.75
Switzerland	1,362	.38	1,687	.57	2,044	.75
Other	5,244	1.45	4,305	1.47	4,309	1.57
	30,814	8.50	27,547	9.37	26,850	9.82
Central/Eastern Europe, Middle East and Africa	469	.13	645	.22	769	.28
Latin America						
Argentina	193	.06	324	.11	437	.16
Brazil	71	.02	75	.02	160	.06
Chile	836	.23	751	.26	640	.24
Mexico	696	.19	343	.12	665	.24
Other	174	.05	212	.07	272	.10
	1,970	.55	1,705	.58	2,174	.80
Caribbean						
Bahamas	1,520	.42	1,549	.53	1,674	.61
Other	1,902	.52	1,952	.66	1,236	.45
	3,422	.94	3,501	1.19	2,910	1.06
Asia						
Japan – Banks	53		634		390	
Government	1,663		1,599		625	
Other	988		1,000		1,256	
	2,704	.75	3,233	1.10	2,271	.83
Singapore	217	.06	336	.11	411	.15
South Korea	449	.12	338	.11	462	.17
Other	145	.04	188	.07	755	.28
	3,515	.97	4,095	1.39	3,899	1.43
Australia and New Zealand	2,335	.64	1,775	.60	2,444	.89
Allowance for loan losses (2)	(728)	(.20)	(441)	(.15)	(389)	(.14)
Total	\$ 101,989	28.14%	\$ 75,212	25.58%	\$ 67,216	24.59%

(1) Includes the following assets with clients in a foreign country: loans, accrued interest, acceptances, interest-bearing deposits with other banks, securities, other interest-earning investments and other monetary assets including net revaluation gains on foreign exchange and derivative products. Local currency outstandings, whether or not hedged or funded by local currency borrowings, are included in country exposure outstandings. Foreign outstandings are reported based on location of ultimate risk.

(2) The allowance for loan losses includes the allocated country risk allowance and the international component of the allocated specific, the allocated general and the unallocated allowance.

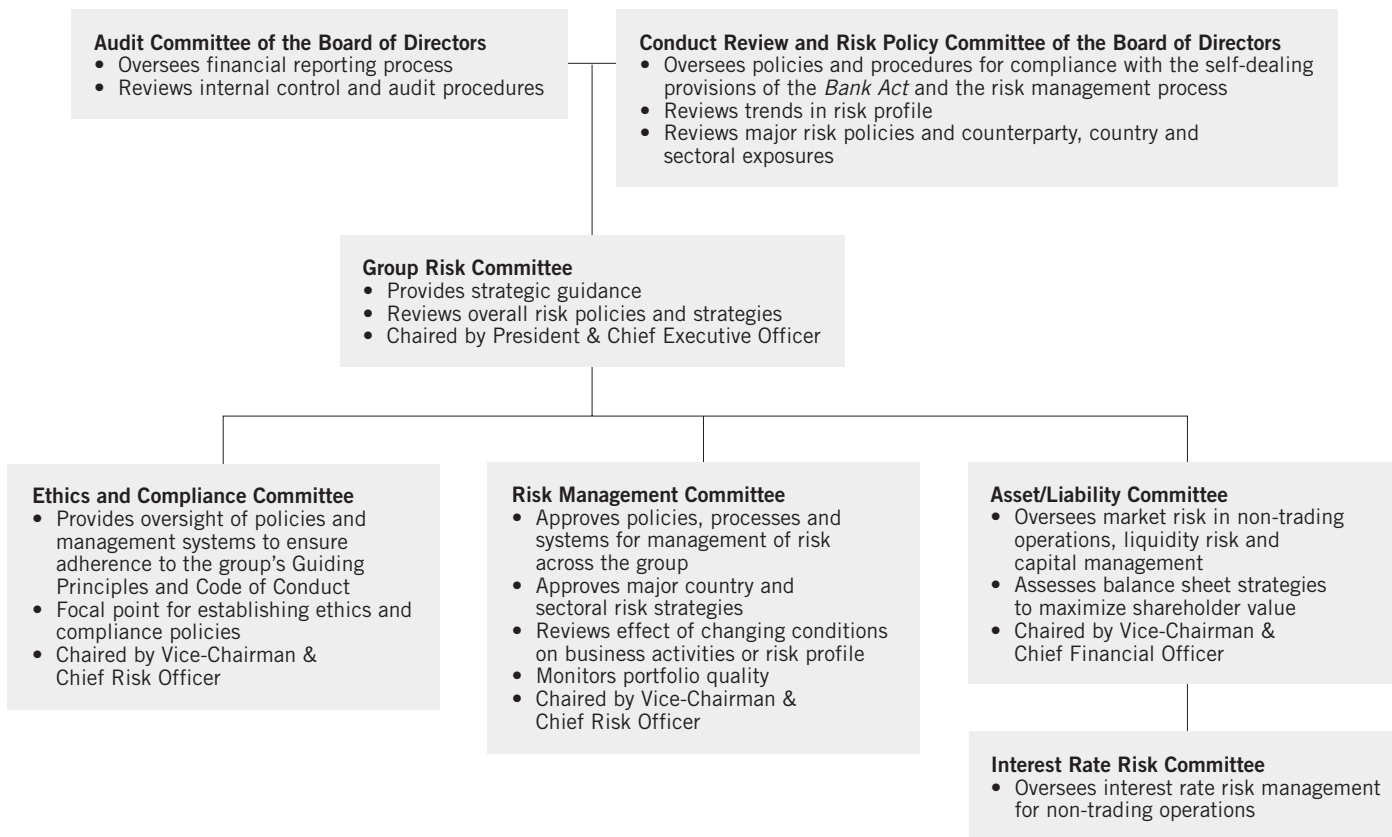
Risk management

Overview

The bank manages risk strategically with a view to building shareholder value. The cornerstone of effective risk management in the bank is a strong risk management culture, which is supported by numerous strategy and policy development processes, run jointly by risk management professionals and the businesses. This partnership approach is designed to ensure strategic alignment of business, risk and resource issues.

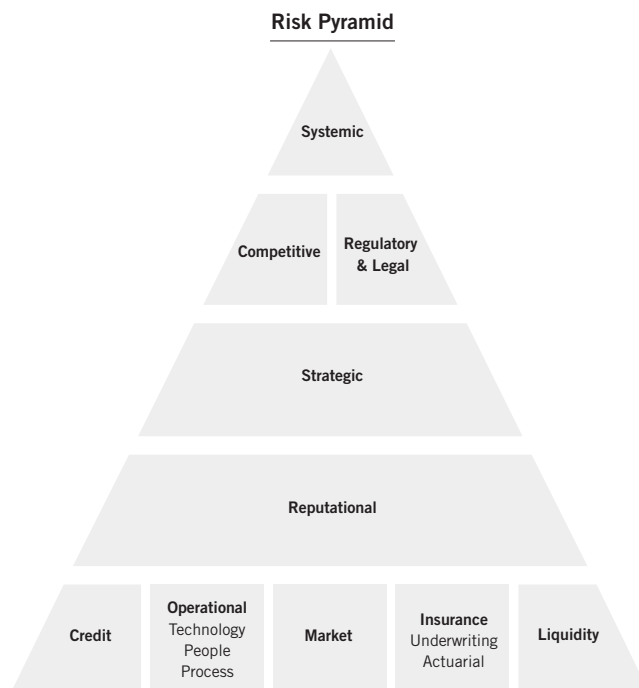
Although the partnership approach is important, independence of the Group Risk Management function is essential. The Vice-Chairman &

Chief Risk Officer, who reports directly to the President & Chief Executive Officer, heads up a global function that has been structured to reflect the evolving needs and strategic initiatives of the organization. A structure of management and board committees provides oversight of the risk management process. In 2001, the role of the Chief Compliance Officer was elevated, and the Ethics and Compliance Committee added to the risk committee structure:

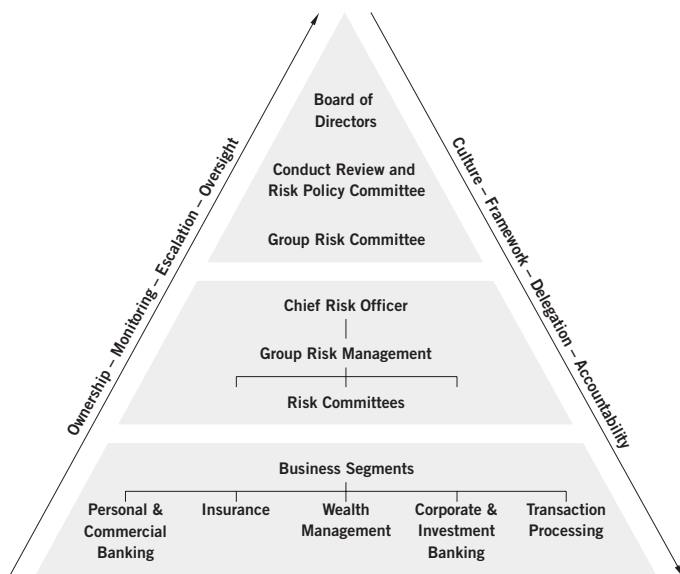


The Risk Pyramid is the primary tool to assess risk across the bank. The Risk Pyramid gives the organization a common language for evaluating risk in business reviews, new businesses, new products, new initiatives, acquisitions or alliances. The Risk Pyramid is also used to provide an organizational perspective on the roles and responsibilities of the Board of Directors and management in ensuring an effective risk management process throughout the bank. The Risk Pyramid was initially developed as a communication tool and continues to serve in that capacity as well.

Group Risk Management professionals work in partnership with the business and functional units to identify risk, which is then measured, monitored and managed. In line with a group-wide portfolio management approach, portfolio analytical techniques are employed in an effort to optimize the risk-reward profile and ensure efficient allocation of capital within the bank.



The Risk Pyramid: An organizational perspective



Credit risk

Traditionally, credit risk is considered to be the risk of loss due to the inability or unwillingness of a counterparty to fulfill its payment obligations. However, the distinction from market risk is not clear-cut, since credit risk can also result from loss in market value due to deterioration in the financial position of a counterparty. A disciplined approach to credit risk management preserves the independence and integrity of risk assessment while being integrated into business management processes. Policies and procedures, which are communicated throughout the organization, guide the day-to-day management of credit risk exposure and are an essential part of the bank's business culture.

Subject to the overriding principle of portfolio diversification, the bank focuses on:

- Strategic and profitable client relationships, existing as well as prospective
- Industries where Canadian companies enjoy a particular competitive advantage or where the bank has developed special expertise
- Volume-based sectors that generate an attractive return for the risk (small business, public sector and agriculture)

In Canada, the bank provides a full range of services to clients across all industries. Internationally, it focuses on sectors where it has developed particular expertise (mining, energy, telecommunication & media and financial services). Increasing emphasis is placed on the risk-return balance of individual transactions as well as their impact on portfolio diversification, and particular attention is being given to the appropriate balance between "new economy" and "old economy" sectors. As the economy started to slow down in early summer, particular attention was paid to proactively evaluating the credit risk of cyclical sectors such as consumer goods, retail and automotive manufacturing. Also, the forest products sector continued to be closely managed. This loan portfolio has decreased by \$170 million or 9% during 2001 to \$1.7 billion, and is down from \$2.6 billion as at October 31, 1997.

At October 31, 2001, loans to the telecommunication and cable sectors were \$3.2 billion (\$4.8 billion at October 31, 2000), of which 47% was investment grade. Telecommunication loans alone were \$2.2 billion, of which 41% was investment grade.

At October 31, 2001, loans to the transportation and environmental sector were \$3.7 billion (\$3.0 billion at October 31, 2000), of which 62% was investment grade. During 2001, the airline industry in particular suffered from a cyclical slowdown and the impact of the September 11 terrorist attacks in the United States. Loans to airlines at October 31, 2001, were \$0.9 billion, of which 67% were investment grade.

The acquisition of RBC Centura has added to the bank's real estate portfolio, but the geographic separation of RBC Centura's book from the bank's traditional Canadian markets is seen as a mitigating factor. This diversification notwithstanding, the bank plans to reduce its overall \$6.4 billion of outstanding loans relating to real estate at fiscal year-end by approximately \$1 billion over the next two years.

The bank has stayed the course on reducing exposure to emerging markets. Credit risk in Asia, Central & Eastern Europe, the Middle East and Africa declined further, although the pace of this reduction is now slowing down. Remaining exposure in these markets is largely to subsidiaries of foreign multinationals and banks or in support of companies with significant North American operations that offer the prospect of fee-generating business in their home markets. This is especially true for Latin America where the large majority of the exposure is to the private sector and is mostly linked to the financing of specific projects, with direct government exposure being insignificant.

Portfolio composition by product continues to shift away from traditional lending, particularly in global banking relationships. Emphasis is placed on trading activities such as foreign exchange, swaps, options, equity derivatives and fixed income products. Specialized teams in Toronto, New York, London and Sydney handle these transactions. Resident independent middle offices ensure that risk guidelines are adhered to. New products or structures must be approved by Group Risk Management in Toronto following risk analysis and stress testing. Exposure control of trading products has two levels. First, individual credit lines must be approved for every counterparty. Second, overall usage of approved lines is capped by product group, counterparty location or industry. Such limits are particularly important in the financial industry, as banks account for approximately 35% and non-bank financial institutions for a further 15% of all the bank's commercial credit authorizations.

Personal & Commercial Banking

Specialization of Risk Management across all businesses within Personal & Commercial Banking continues to be a key goal for 2002. For the consumer and small business markets, a joint effort between Risk Management and Personal & Commercial Banking is underway to enhance our credit scoring strategy and tactical capability in the areas of origination, account review and collections. Benefits of this project are expected to be realized commencing in 2002. In addition, Risk Management, in conjunction with Commercial Markets, continues to develop industry expertise and enhanced portfolio management capabilities. In the mid-market, the implementation of Moody's Financial Advisor (a software program developed by Moody's Risk Management Services, utilized in financial analysis of client financial information required for the credit adjudication process for commercial and business clients) in 2002 will assist account managers in credit analysis and understanding the financial needs of their clients' businesses.

Risk Management is continuously improving management information systems in order to enhance portfolio management capabilities and improve credit processes.

Corporate & Investment Banking

The bank uses a strategic approach for managing the risk of the large corporate client base. This approach integrates comprehensive portfolio management techniques with forward-looking strategic limits for industry sectors and sub-sectors, countries and clients based on risk analysis, business opportunities and the bank's risk appetite. The asset portfolio is continuously managed through both periodic and event-related formal reviews of the risk and reward profile of the existing client base and potential new opportunities, and a comprehensive portfolio modelling process, which rebalances the bank's exposure in global industry sectors and countries. During the year, the frequency and the depth of analysis was enhanced for risk rating our borrowers and counterparties.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, technology or human performance, or from external events. Its impact can be financial loss, loss to reputation, loss of competitive position or regulatory censure.

While operational risk can never be fully eliminated, the bank endeavours to minimize it by ensuring that the appropriate infrastructure, controls, systems, and trained and competent people are in place throughout the bank. Dedicated professionals are in place to identify and implement what management believes to be best industry practices in the area of operational risk management.

The bank has been proactive in developing and implementing new methodologies for the identification, assessment and management of operational risk. A number of in-depth operational risk self-assessments were conducted in all segments during 2001, resulting in action taken by the businesses to manage their risks more proactively. Operational risk capital has been allocated to all major business units, based on an assessment of each unit's risk exposure.

The focus in 2002 will be on an enterprise-wide rollout of operational risk self-assessment tools and processes, further development of operational risk quantification methodologies, and staying at the forefront of best risk management practices.

eBusiness risk

eBusiness brings together different cultures, industry practices, processes, talents and complex value chains. As eBusiness continues to innovate, re-invent and consolidate, the bank is keeping a watchful eye on new developments and the pace of change. Among our priorities is the communication of eBusiness risk management best practices and making risk management and due diligence tools available throughout the bank.

Security, privacy and the management of technology are the risks most commonly cited as eBusiness risks and the trends in these areas are closely monitored and managed within the bank. Some unique and potentially high risks on which we focus include strategic/business planning, business continuity, change management, recruitment and retention of specialized human resource skills and competencies, and knowledge management. By establishing a centre of expertise in eBusiness risk, the bank has positioned itself as a leader and model of eBusiness risk management.

Market risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices.

Interest rate risk

Interest rate risk is the potential adverse impact on the bank's earnings and economic value due to changes in interest rates. The key sources of interest rate risk to which the bank is exposed are repricing mismatch risk, credit spread risk, basis risk and options risk. Repricing mismatch risk arises when there are mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period, primarily due to clients' differing term preferences. Credit spread risk arises when there are changes in the credit spread that result from changes in the market's perception of general or specific credit quality and liquidity. Basis risk arises when the differentials between various indices upon which the bank prices its products change. Options risk arises from the effect of interest rate movements and changes in volatilities on the market value of the options within the bank's portfolios.

Foreign exchange rate risk

Foreign exchange rate risk is the potential adverse impact on the bank's earnings and economic value due to currency rate movements. The bank is exposed to foreign exchange rate risk in both the spot and forward foreign exchange markets and in the options market. Spot foreign exchange risk arises when the total present value of assets in any currency does not equal the total present value of liabilities in that currency. Forward foreign exchange risk arises when, for a given currency, the maturity profile of forward purchases differs from the maturity profile of forward sales. Options risk arises from the effect of interest rate and exchange rate movements and changes in volatilities on the market value of the options within the bank's portfolios.

Equity risk

Equity risk is the potential adverse impact on the bank's earnings due to movements in individual equity prices or general movements in the value of the stock market. The bank is exposed to equity risk from the buying and selling of equities as a principal in its brokerage business. Equity risk also results from the bank's trading activities, including the provision of tailored equity derivative transactions to clients, arbitrage trading and proprietary trading.

Commodity risk

Commodity risk is the potential adverse impact on the bank's earnings and economic value due to movements in commodity prices. Commodity risk arises primarily in the bank's trading portfolio through exposure to movements in the price of precious metals. However, there is minimal exposure to commodity risk in the bank's trading portfolio because the bank does not normally hold unhedged positions in the portfolio.

The level of market risk to which the bank is exposed varies continually, reflecting changing market conditions, expectations of future price and market movements and the composition of the bank's trading and non-trading portfolios. The bank has established risk management policies and limits for its trading and asset/liability management activities that allow it to monitor and control the exposure to market risk resulting from these activities.

Trading activities

The market risk associated with trading activities is a result of market-making, positioning and sales and arbitrage activities in the interest rate, foreign exchange, equity and commodity markets. The bank's trading operation has a primary role of acting as a market-maker or jobber, executing transactions that meet the financial requirements of its clients, and transferring the market risks to the broad financial market. The bank also acts as principal and takes market risk proprietary positions within the authorizations granted by the bank's board. This risk is managed primarily through a Value-At-Risk (VAR) methodology.

VAR is a generally accepted risk measurement concept that uses statistical models and historical market price information to estimate within a given level of confidence the maximum loss in market value that the bank would experience in its trading portfolios from an adverse one-day movement in market rates and prices. The bank's VAR measure is based on a 99% confidence level and is an estimate of the maximum potential trading loss in 99 out of every 100 days. The bank uses an historical simulation of the previous 500 trading day scenarios to determine VAR for its trading portfolio. The graph on [page 53](#) shows the daily net trading revenue compared to the global trading VAR amounts for the year ended October 31, 2001. Net trading revenue is defined as the sum of the mark-to-market adjustments booked on trading positions and net interest income accrued from trading assets. During fiscal 2001, the bank experienced only two days of trading losses, and it did not experience a single day with trading losses in excess of the VAR estimate for that day.

TABLE 22 Market risk measures – Trading activities ⁽¹⁾

(C\$ millions)	2001				2000			
	Year-end	High	Average	Low	Year-end	High	Average	Low
Global VAR by major risk category								
Equity	\$ 8	\$ 16	\$ 10	\$ 6	\$ 14	\$ 22	\$ 13	\$ 6
Foreign exchange and commodity	2	6	3	1	4	11	5	2
Interest rate	3	9	4	2	7	9	5	3
Global VAR ⁽²⁾	\$ 8	\$ 18	\$ 11	\$ 6	\$ 18	\$ 24	\$ 16	\$ 10

(1) Amounts are presented on a pre-tax basis and represent one-day VAR at a 99% confidence level.

(2) Global VAR reflects the correlation effect from each of the risk categories through diversification.

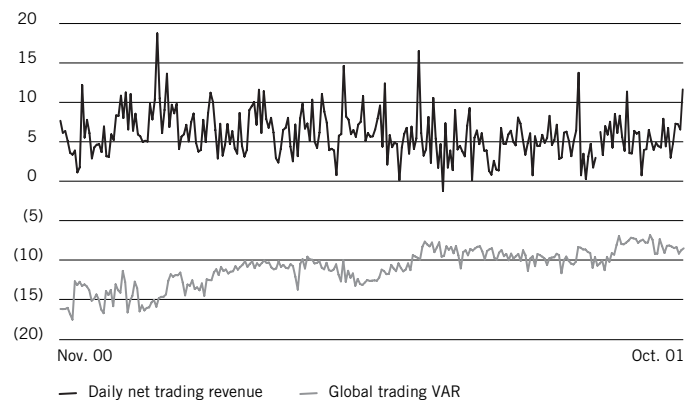
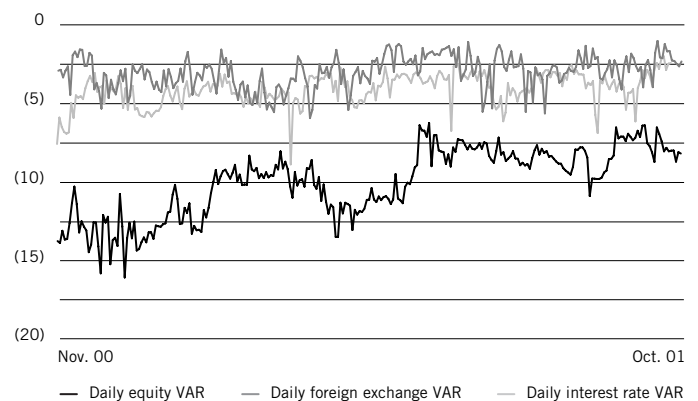
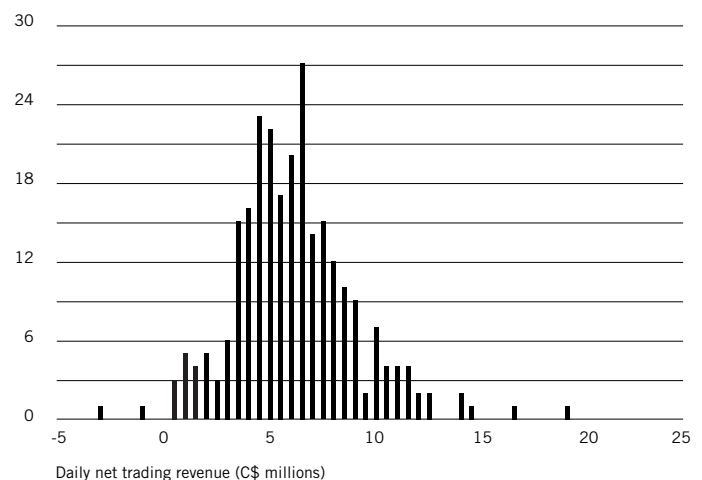
During the year, the bank expanded the scope of its interest rate products to include credit derivatives. Credit derivatives allow trading of credit risk separate from an underlying instrument. For example, credit exposure to a company can be acquired or divested through a credit derivative without actually owning a loan or bond issued by the company. Credit derivatives are one of the fastest growing over-the-counter trading products. Credit derivatives are provided to institutional and corporate clients and are also used by the bank in the management of its loan portfolio.

Table 22 above shows the year-end, high, average and low VAR by major risk category for the bank's combined trading activities for the years ended October 31, 2001 and 2000. The table also shows the bank's global VAR, which incorporates the effects of correlation in the movements of interest rates, exchange rates, equity prices and commodity prices and the resulting benefits of diversification within the bank's trading portfolio. As the table illustrates, the bank's average VAR in 2001 declined to \$11 million from an average of \$16 million in 2000, reflecting a reduction in risk mainly in the equity trading portfolio.

The bank also performs analysis on the potential trading losses due to stress events as a supplementary control on its market risk exposure. This is accomplished through applying historical and internally developed scenarios to the daily trading positions to monitor the effect of extreme market movements on the value of its portfolio.

The Group Risk Management function, which is independent of the trading operations, is responsible for the daily monitoring of global trading risk exposures. The function uses the bank's VAR methodology to compare actual exposures to the limits established, to assess global risk-return trends and to alert senior management of adverse trends or positions. The function also develops and implements comprehensive risk measurement policies and risk limits that apply to trading activities.

Management recognizes that VAR is not an absolute measure of market risk and has its limitations since it is based on historical information only. In such circumstances, management implements other limits in order to control market liquidity risks, net position gap, term and volume for all products. This comprehensive market risk management framework is designed to ensure that an appropriate diversification of risks through policies is adopted on a global basis.

DAILY NET TRADING REVENUE VS GLOBAL TRADING VAR
(C\$ millions)**GLOBAL VAR BY MAJOR RISK CATEGORY**
(C\$ millions)**HISTOGRAM OF DAILY NET TRADING REVENUE**
(number of days)

Asset/liability management activities of the bank's non-trading portfolio

Core banking activities, such as deposit taking and lending, expose the bank to market risk, mostly in the form of interest rate risk. The risk is managed within the economic value of equity risk and net interest income risk limits approved by the Conduct Review & Risk Policy Committee of the Board of Directors. The risk limits are based on an immediate and sustained 200 basis point parallel movement in rates across all maturities. Economic value risk measures the adverse net impact on the present value of assets and liabilities and off-balance sheet financial instruments. The limit for economic value of equity risk is \$1.5 billion, which corresponds to about 10% of the bank's common equity. This represents a limit increase of \$400 million relative to the prior year and is attributable to net common stock issuance of \$3.4 billion. Net interest income risk measures the adverse impact on net interest income over the next 12 months. The net interest income risk limit is \$300 million.

The Corporate Treasury function actively monitors and manages the Canadian domestic and U.S. non-trading books. It also oversees a limited number of authorized units that manage their interest rate exposure at a decentralized level within established risk limits.

In managing the Canadian domestic and U.S. non-trading books, the goal is to achieve a balance between reducing risk from adverse movements in interest rates and enhancing net interest income. To achieve this, derivative instruments, primarily interest rate swaps, are used to adjust the risk profile of the book taking into account the shape of the yield curve, expected changes in the level of interest rates and the current level of risk being carried. When appropriate, the bank will also purchase options to hedge some of the embedded options inherent in certain deposit and loan banking products. Embedded options allow bank clients to alter the maturity profile of their deposit or loan products. The most prevalent types of embedded options are early redemption features in certain term deposit products and prepayment options in some loan products.

The primary analytical techniques used by the bank to measure the economic value of equity risk and net interest income risk and to manage non-trading interest rate risk are scenario analysis and starting position analysis. Scenario analysis is forward looking, and enables the bank to forecast net interest income and analyze the impact under numerous economic and interest rate scenarios. It incorporates assumptions about pricing strategies, volume and mix of new business, expected changes in the level of interest rates, changes in the shape of the yield curve and

other factors such as the impact of embedded options. Starting position analysis provides the framework for measuring economic value and net interest income risk exposures against limits at a point in time. The results of the scenario and starting position analysis assist in determining the risk-return tradeoffs of potential hedging and optimization strategies. This allows the bank to achieve a balance between enhancing net interest income and reducing the risk of lower earnings from adverse movements in interest rates.

Table 23 below presents the potential impact of a 100 and 200 basis point increase and decrease on the bank's economic value and on current earnings from changes in interest rates on the non-trading portfolio of the bank. These measures are based on its interest rate sensitivity position at October 31, 2001, including all repricing assumptions. These measures assume that no further hedging is undertaken and that all assets and liabilities reprice by the defined amounts. The bank has defined a risk neutral balance sheet as one where net residual assets representing equity are evenly invested over a five-year horizon. As a result of this decision, the bank's interest rate risk profile is one that is slightly asset sensitive while maintaining a duration of equity at about 2.5 years. This is characteristic of a bank operating in an interest rate "safety zone" for which economic value and net interest income risk measures move in opposite directions for the same parallel shift of the yield curve. In the safety zone, net interest income declines and economic value increases for a decline in interest rates and the opposite is true for an increase in interest rates.

The interest rate sensitivity position at October 31, 2001, including all repricing assumptions, reflects a view on future interest rate movements relative to the current yield curve. The risk position has been and is currently being actively managed to reflect the historically low interest rates since mid-September. The bank's view is that although short-term interest rates may decline further, medium- and long-term rates will remain within the current range until there is evidence of economic recovery. While some near-term volatility is possible, the bank is positioning itself for a fairly stable interest rate environment until early calendar 2002.

All interest rate measures in this section are based upon the bank's interest rate exposures at a specific time. The exposures change continually as a result of the bank's day-to-day business activities and its risk management initiatives.

TABLE 23 Market risk measures – Non-trading activities

(C\$ millions)	2001		2000	
	Economic value of equity risk (1)	Net interest income risk (1)	Economic value of equity risk (1)	Net interest income risk (1)
100bp increase	\$ (390)	\$ 96	\$ (306)	\$ 71
100bp decrease	256	(108)	241	(84)
200bp increase	\$ (842)	\$ 179	\$ (628)	\$ 129
200bp decrease	466	(294)	473	(170)

(1) Amounts are presented on a pre-tax basis as at October 31.

Liquidity risk

The objective of liquidity management is to ensure that the bank has the ability to generate sufficient cash or its equivalents, in a timely and cost-effective manner, to meet its commitments as they fall due. Liquidity management is critical in protecting the bank's capital, maintaining market confidence and ensuring that the bank can expand into profitable business opportunities.

The bank's liquidity management framework includes policies for several key elements, such as minimum levels of liquid assets to be held at all times. The bank uses liquid assets and repurchase and reverse repurchase agreements when managing its short-term liquidity. Liquid assets and assets purchased under reverse repurchase agreements (before pledging, see next paragraph) totalled \$136.9 billion or 38% of total assets at October 31, 2001, as compared to \$100.7 billion or 34% of total assets at October 31, 2000. Canadian dollar liquid assets are primarily marketable securities, and much of the bank's foreign currency liquid assets are issued by highly rated foreign banks.

Policies are also in place to ensure that the bank is able to meet potential pledging requirements that may arise. At October 31, 2001, \$9.5 billion of assets had been pledged as collateral, plus another \$20.9 billion and \$16.0 billion in obligations related to assets sold under repurchase agreements and securities sold short, respectively. For further details, see note 15 of the consolidated financial statements.

Another key element of the liquidity management framework is cash flow management. There are limits on the maximum net outflow of funds for specified time periods, particularly for key short-term time horizons. Scenario analysis is performed periodically on the assumed behaviour of cash flows under varying conditions to assess funding requirements and is updated as needed to reflect changing conditions.

The bank's framework also incorporates liquidity contingency planning to assess the nature and volatility of funding sources and to determine alternatives to these sources. The contingency plan would be activated to ensure that the bank's funding commitments could be met in the event of general market disruption or adverse economic conditions. The plan is reviewed, tested and updated at least annually.

Strong capital ratios, credit quality and core earnings are essential to retaining high credit ratings and consequently, cost-effective access to funding. These items, along with other indicators, are monitored on an ongoing basis as part of the liquidity management process.

Funding diversification is another key element of liquidity management. Diversification is achieved by strategically varying depositor type and country of origin, geographic locations and legal entities, term, funding market, and instrument. Core deposits, which are provided largely by consumers, and capital, are principal sources. For information on capital activity, see pages 39 to 42. Other sources include money market funding, term funding and asset securitization.

As shown in Table 24 below, deposits from consumers remained at 43% of total deposits, up \$11.7 billion or 13% from October 31, 2000, including RBC Centura's addition of \$8.2 billion. Business and government deposits as a percentage of total deposits remained at 46%. These were up \$13.1 billion or 14% year-over-year, of which RBC Centura contributed \$3.4 billion. Consumer deposits represent the prime source of Canadian dollar deposits, while foreign currency deposits are primarily from large corporations and foreign banks, including central banks.

During 2001, the bank continued to broaden its term funding base by issuing \$2.1 billion of senior deposit notes in various currencies and markets. It also issued \$1.0 billion of subordinated debentures, \$750 million of innovative Tier 1 capital and \$250 million of preferred shares, as outlined on page 40. The securitization of credit card receivables funded by medium-term notes contributed \$1.0 billion of funding during the year.

In October, the bank offered subordinated notes for US\$400 million. This offering closed on November 8, 2001. Denominating the notes in U.S. dollars and issuing in Europe allowed the bank to better align the currency composition of its capital base with that of its asset base, and further diversified its investor base for this type of security.

The bank also diversified its funding by participating in the Canada Mortgage and Housing Corporation's newly developed Canada Mortgage Bond program. During the year, the bank securitized \$800 million of government guaranteed residential mortgages and initially sold \$723 million of those securities.

These alternative activities have strengthened the bank's domestic and foreign funding presence. Their future uses and those of new funding sources will continue to be assessed in light of their impact on traditional funding sources and relative benefits.

TABLE 24 Deposits

(C\$ millions)				2001	2000	1999
	Demand	Notice	Term	Total	Total	Total
Personal	\$ 10,835	\$ 28,945	\$ 61,601	\$ 101,381	\$ 89,632	\$ 87,359
Business and government	28,754	12,122	66,609	107,485	94,379	86,223
Bank	3,966	411	22,444	26,821	22,226	14,315
	\$ 43,555	\$ 41,478	\$ 150,654	\$ 235,687	\$ 206,237	\$ 187,897
Non-interest-bearing						
Canada				\$ 22,397	\$ 22,011	\$ 16,876
United States				1,918	151	–
Other international				543	712	666
Interest-bearing						
Canada				118,161	116,113	112,430
United States				25,169	11,608	9,451
Other international				67,499	55,642	48,474
				\$ 235,687	\$ 206,237	\$ 187,897

2000 compared to 1999

The following discussion and analysis provides a comparison of the bank's results of operations for the years ended October 31, 2000 and 1999. This discussion should be read in conjunction with the consolidated financial statements and related notes on pages 57 to 84. This portion of the management's discussion and analysis is based on amounts reported in the consolidated financial statements and does not exclude special items.

Business segment results

Personal & Commercial Banking's net income increased 35% to \$1,115 million in 2000 from \$827 million in 1999. Return on common equity increased 270 basis points to 20.5%. The efficiency ratio improved 640 basis points to 58.7% in 2000 due to a highly effective cost-reduction program.

Net income in Insurance was down 5% to \$103 million in 2000. Return on common equity decreased from 56.0% to 38.6%.

Wealth Management's net income was up 52% from 1999 to \$413 million. Return on common equity declined by 990 basis points to 47.8% due to the higher allocation of capital for operational and other risks.

Corporate & Investment Banking's net income increased 67% to \$502 million. Return on common equity improved by 550 basis points to 20.8%.

Transaction Processing's net income was up 25% to \$134 million. Return on common equity increased 450 basis points to 32.2%.

Net interest income

Net interest income increased 3% to \$5.3 billion in 2000 from \$5.1 billion in 1999 partially due to higher volumes of interest-bearing assets, particularly retail loans.

Non-interest revenue

Non-interest revenue increased 22% to \$6.7 billion in 2000, accounting for 56% of total revenue.

Non-interest expenses

Non-interest expenses increased 7% to \$7.6 billion.

Taxes

The bank's income taxes for 2000 were \$1.4 billion, for an effective income tax rate of 38.8%. Income taxes were \$1.0 billion in 1999, while the effective income tax rate was 36.0%.

Provision for credit losses

The provision for credit losses decreased 9% to \$691 million in 2000 from \$760 million in 1999. The total allowance for loan losses was \$1.9 billion or 1.1% of total loans (including acceptances) versus 1.2% in 1999.

Quarterly financial information

Selected financial information for the eight most recently completed quarters is shown on page 90.