



Royal Bank of Canada

2010

Annual Report

Vision

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

Values

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

Strategic goals

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

ROYAL BANK OF CANADA (RY on TSX and NYSE) and its subsidiaries operate under the master brand name RBC. We are Canada's largest bank as measured by assets and market capitalization, and among the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. We employ approximately 79,000 full- and part-time employees who serve close to 18 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 50 other countries. For more information, please visit rbc.com.

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This annual report contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *United States Private Securities Litigation Reform Act of 1995* and applicable Canadian securities legislation. We caution readers not to place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. Additional information about our forward-looking statements and risk factors can be found under the Caution regarding forward-looking statements on page 5.

In the midst of continued and significant changes in the financial services sector, RBC remained focused on our long-term strategy and delivered strong shareholder results. We grew our franchise both in Canada and internationally, illustrating once more our commitment to putting clients first, the power of our diversified business mix, our values-based culture and our people.

Although economic and market conditions for financial institutions improved, they remained challenging in 2010, marked by low interest rates, regulatory reform and the changing needs and expectations of clients.

In the face of this, we maintained our disciplined approach to risk and capital management while taking significant steps to advance our leading position in Canada, expand globally, strengthen our competitive position and invest in future sources of growth.

We launched new products to meet clients' changing needs, entered new markets and collaborated across our enterprise to deepen relationships and provide a richer client experience. We made significant investments in the areas of risk controls and technology to ensure we have the sound infrastructure to effectively and efficiently support both our clients and our growth.

Our financial results from fiscal 2010 demonstrate this progress, with net income of \$5.2 billion, compared to \$3.9 billion last year. Excluding certain items, earnings were up 10 per cent for the year¹. These results reflect record performance in Canadian Banking and solid results in Wealth Management, Capital Markets and Insurance.

We also delivered top quartile shareholder returns for three- and five-year time horizons versus our global peer group. Our Tier 1 capital ratio of 13 per cent and Tier 1 common ratio of 9.8 per cent (as at October 31), coupled with our low leverage, demonstrate the strength of our balance sheet and capital position.

Standing behind this performance are the capabilities and client focus of 79,000 dedicated RBC employees across 52 countries who advised and served close to 18 million clients.

Fundamental to long-term success is our continued leadership in Canada, which generates approximately two-thirds of our total revenues. Strong businesses and a recognized and respected brand in our home market have enabled us to extend our businesses into new markets around the world.

Advancing our leadership through 2010

We are committed to maintaining our leadership in Canada across all our businesses through a range of industry-leading financial and non-financial measures including client retention, satisfaction, loyalty and brand strength.

Virtually all our Canadian lines of business have advanced their position in each market and product category. We see more opportunities to increase market share based on the strength of our brand and the desire of Canadian families and businesses for sound advice and solutions that help them achieve their financial goals.

In Canadian Banking, RBC serves approximately 11 million personal, small business and commercial clients through the most extensive and integrated distribution network in Canada including branches, Automated teller machines (ATMs), a specialized mobile sales force, online channels and contact centres.

This year, Canadian Banking grew market share and implemented cost reduction initiatives while making significant investments in its distribution network, products, services and processes in order to improve our efficiency. We were the first Canadian issuer of both Visa and MasterCard and we launched our first new retail store, which transforms the branch experience into an interactive learning and shopping opportunity for both existing and prospective clients.

In Canada, we are the leading full-service brokerage firm as measured by assets under administration (AUA), with close to 1,440 investment advisors serving affluent and high-net-worth clients. We are the largest fund company and one of the largest money managers in Canada, with a 15 per cent market share as measured by assets under management (AUM). Additionally, we provide discretionary investment management and estate and trust services to our clients across Canada. We were recognized for having the best private banking services in Canada (*Euromoney*), and RBC Global Asset Management's PH&N fund family was awarded the Best Overall Fund Group and Bond Fund Family in Canada (Lipper Inc.).

We have the largest bank-owned insurance company in Canada with a strong and growing position in new sales. Our insurance business complements our retail banking offering and contributes considerable and stable earnings to RBC. We continued to improve our profitability through shared and streamlined processes, and we deepened our client

(1) Excluding a \$116 million loss on the announced sale of Liberty Life Insurance Company (Liberty Life) in 2010 and a \$1 billion goodwill impairment charge in 2009, we had net income of \$5.3 billion in 2010 and \$4.9 billion in 2009, respectively. For more information relating to non-GAAP measures, refer to the Key performance and non-GAAP measures section of our Management's Discussion and Analysis.

relationships and simplified the way we do business. We also expanded our retail insurance network to 52 branches, providing clients with more access to insurance services.

This year, we maintained our position as Canada's leading global investment bank, providing corporate, public sector and institutional clients with a wide range of products and services. We were named Dealmaker of the Year in Canada (*Financial Post*), named Best Investment Bank in Canada (*Euromoney*), recognized for excellence in Canadian equity research (Brendan Wood International), and ranked number one in debt, equity and M&A in Canada (Bloomberg).

Outside Canada, our global expansion provided RBC with new opportunities to diversify our revenue streams, grow our earnings base and build our wealth management and capital markets businesses. Our capital markets capabilities are by far the most global of any Canadian bank.

We are also the only Canadian bank with a global wealth management capability. RBC provides customized trust, banking, credit and investment solutions to high-net-worth clients in 21 countries around the world. We are now the sixth-largest full-service brokerage firm in the U.S., serving correspondent clients and individual investors directly with over 2,100 financial consultants through a national network in 42 states.

In 2010, we were recognized as a top 10 global wealth manager in Scorpio Partnership's Global Private Banking KPI Benchmark. Our announced intention to acquire BlueBay Asset Management will further expand our global capability².

In Capital Markets, we significantly deepened our U.S. franchise, resulting in market share increases and winning us key mandates for both mid-cap and large-cap companies. We expanded our New York trading floor, now one of the largest on Wall Street. In Europe, we broadened our investment banking, equity and research businesses and now have primary dealer status in France and Germany, in addition to the U.S., Canada, the U.K. and Australia.

In the U.K., we continued to extend our capabilities in fixed income and currency, and are a top five Gilt-edged market maker. Our credit trading business in Europe received top rankings from institutional investors in several categories, including the Best Bank for Fixed Income, e-Trading and

Non-Core Currency Bonds (*Credit Magazine*). We continued to methodically build out our global capital markets platform in all major geographies including Asia, through strategic hires and a new trading floor in Hong Kong.

Our International Banking segment includes our banking businesses in the U.S. and Caribbean, as well as our 50 per cent interest in RBC Dexia Investor Services.

RBC Bank in the U.S. provides a comprehensive line of products and services through 426 banking centres and approximately 480 ATMs. In 2010, we were ranked among the top five deposit holders in North Carolina and ranked seventh overall as measured by deposits in our southeastern U.S. footprint. Throughout the year, we continued to focus on managing our loan portfolio and restructuring our retail operations. While weak economic, credit and market conditions remain challenges, we are committed to restoring our operating performance.

RBTT is one of the largest banking networks in the Caribbean, serving nearly 700,000 clients in 12 countries through 85 branches. We made solid progress in implementing a new technology infrastructure and leveraging the capabilities of the broader RBC network to enhance the client experience.

RBC Dexia Investor Services, our global custody and investor services joint venture, is a top 10 global custodian and was awarded Top-Rated status across the categories of Leading Clients, Cross-Border/Non-Affiliated and Domestic, as reported in *Global Custodian Magazine's* 2010 Agent Banks in Major Markets Survey.

Across all these businesses and geographies, RBC is, at its core, a people business. To deliver value to clients and sustain top quartile results for shareholders, we make sustaining a high-performance, high-employee engagement culture a priority. This year we were recognized as one of Canada's Top 100 employers (*Mediacorp Canada Inc.*), a Top Employer in London, England (City of London Corporation) and one of the best places to work in the U.S. (Human Rights Campaign). In addition, we received the prestigious Catalyst Award for our achievements and longstanding commitment to diversity and inclusion.

Our employees helped build, strengthen and connect the communities we serve through our leading corporate citizenship program, the Vancouver 2010 Olympic Torch Relay

(2) The BlueBay acquisition is subject to the satisfaction of all customary closing conditions and is expected to close by the end of December 2010.

and the RBC Foundation. These programs, grants and donations are a great source of pride for everyone at RBC.

Outlook

Looking ahead, the global economy and the global banking industry will continue to undergo a significant amount of change. An extended period of slower economic growth in a low interest rate environment will make revenue growth more challenging. Increased regulation of financial institutions' capital and liquidity requirements will add more complexity and higher operating costs and make generating reasonable rates of return on investments more difficult.

In this environment, well-capitalized, stable financial institutions will be positioned to take advantage of emerging opportunities and to differentiate themselves in the marketplace. At RBC, our performance history, diversified business mix and long-term strategy provide us with a wide range of strategic opportunities.

2011 Strategic goals

As a result of changes in the financial services industry over the past few years and the opportunities for growth they present both in Canada and globally, we have refined our strategic goals, while retaining our vision of **Always earning the right to be our clients' first choice**. Our goals are:

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

Seizing opportunities for long-term growth

RBC is well positioned for long-term growth and success. We have a proven track record of excellence in execution, and this strength will continue to drive our success. In the face of scarce capital, our commitment to disciplined capital deployment for long-term business-building opportunities will differentiate us from our peers. And as other financial institutions remain challenged by regulatory requirements, we will invest in our businesses, attract expert advisors and make selective acquisitions to enhance our capabilities.

In Canadian Banking, we will extend our leading position through a best-in-class customer experience differentiated on advice, convenience, service and value for money.

Our focus on establishing Wealth Management as a global leader in both asset and wealth management will be a key driver for long-term growth.

In Insurance, we plan to enhance client attraction and loyalty, efficiency and employee engagement through cross-platform collaboration.

Our success in Capital Markets will come from maintaining our leading position in Canada and growing client relationships in the U.S. and Europe through enhanced product capabilities, investment banking coverage and prudent management of our balance sheet. We intend to strengthen our position in select industry sectors in the U.S. and U.K. and broaden our European fixed income and equities product offering.

In Asia, we will focus on building on our existing capabilities in Capital Markets and Wealth Management through collaboration across both platforms, strategic hires, an enhanced distribution presence and product capabilities.

Improving the operating performance of our International Banking portfolio remains a priority. We will achieve this by executing transformational initiatives that improve our distribution footprint and drive efficiency enhancements.

Our confidence in our long-term growth comes from more than 140 years of experience in serving clients well. We are committed to finding new ways to innovate, be efficient and proactive, and better serve our clients. We will work diligently to remain a leading corporate citizen, helping to build and strengthen the communities we serve. We will rely on the strengths that have made RBC what it is today: our core values of service, teamwork, responsibility, diversity and integrity; our commitment to strong risk management; and our vision of always earning the right to be our clients' first choice.

I would like to take this opportunity to thank our employees around the world, who are without a doubt the driving force behind all our achievements. Their continued commitment to our values, to our clients and to one another is a source of personal pride to me and I thank them all sincerely for their professionalism and integrity.

Finally, I thank our clients and shareholders for choosing RBC.



Gordon M. Nixon
President and Chief Executive Officer

While the past few years have been transformative and challenging for the global financial system, RBC has continued to demonstrate the strength, stability and prudent management that shareholders have come to expect.

As steward of this dynamic enterprise, the Board of Directors of RBC takes its role seriously. We have long been committed to continuous improvement of our leading governance practices, which are carefully designed to support our ability to advise and supervise management. Your independent Board of Directors does not hesitate to test management and challenge its approach, and we are able to do so because of an environment of confidence and mutual trust, created from clear demarcation of roles and transparency between the board and the senior management team.

Over the 2010 fiscal year, your board has continued to focus on overseeing the strategic direction for the organization. With regulatory and economic uncertainties continuing throughout the international marketplace, our challenge has been to balance our strategic role with thorough oversight of risk management while paying careful attention to the changing regulatory landscape. In this environment, the board's independent insights, diverse areas of expertise and collective business experience are especially critical to strategic planning. Our strong foundation of corporate governance enables us to oversee management in a manner that prudently assesses and mitigates risk without stifling innovation and the ability to grow shareholder value.

As global capital markets remained volatile over the past year, this emphasis on oversight of key risks has taken on added significance. The board attentively reviews the enterprise stress testing program, and we actively engage in defining the organization's risk appetite and assessing its risk profile against that risk appetite. To focus management on achieving success within an effective risk control environment, business opportunities are considered in the context of associated risks.

The board discusses key risk issues as they arise and seeks to anticipate trends that may impact the risk profile of RBC. In assessing strategy, we endeavour to ensure there will be appropriate returns for the risks assumed. Our regular reviews of the quality and adequacy of risk controls position the Board of Directors to assess management's ability to execute business strategy effectively in this rapidly changing business and regulatory environment.

Over the past year, your Board of Directors has also paid particular attention to the governance and controls in place for executive compensation, giving careful oversight to the alignment of compensation programs to performance and sound risk management. We have remained at the forefront of best practices, seeking to ensure that our compensation structure and design continue to result in incentive awards that are symmetric with risk outcomes. Our approach to compensation begins with the recognition that compensation programs must be designed to attract and retain the talent needed for the organization's continued success in a highly competitive global marketplace. These programs are aligned with performance goals that motivate executives to achieve strategic goals prudently and within acceptable risk tolerances. Our compensation programs are designed to reward individual contribution to superior financial performance and sustainable long-term shareholder value.

I wish to express my appreciation to all board members for the leadership and commitment they demonstrate in providing RBC with an independent, balanced and value-added perspective and supervising and guiding management in enhancing the stability and strength of the enterprise and creating long-term value for shareholders. Your Board of Directors is proud to be actively engaged in the achievements of the organization. We thank management and employees around the world for their contributions to the continuing success of RBC.

On behalf of the Board of Directors,



David P. O'Brien
Chairman of the Board