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Conformed Copy

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

[Check one]

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13(a) or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 2002 Commission File Number 001-13928

ROYAL BANK OF CANADA

(Exact name of registrant as specified in its charter)

Canada	6029	Not Applicable
(Province or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number (if applicable))	(I.R.S. Employer Identification No. (if applicable))

200 Bay Street
Royal Bank Plaza
Toronto, Ontario
Canada M5J 2J5
Attention: Senior Vice-President
& Corporate Secretary
(416) 974-6234
(Address and telephone number of registrant's principal executive offices)

Royal Bank of Canada
One Liberty Plaza
New York, New York 10006-1404
Attention: Laurel A. Nichols
(212) 428-6236
(Name, address (including zip code) and telephone number (including area code)
of agent for service in the United States)

copies of all correspondence should be sent to:

Donald R. Brown
Senior Counsel
Royal Bank of Canada
200 Bay Street
Toronto, Ontario
Canada M5J 2J5
Tel: (416) 974-6613

Donald J. Toumey
Sullivan & Cromwell
125 Broad Street
New York
New York 10004-2498
(212) 558- 4000

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Securities registered or to be registered pursuant to section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Common Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable

(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

[x] Annual information form [x] Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares	665,257,068
First Preferred Shares,	
Series J	12,000,000
Series K	10,000,000
Series N	12,000,000
Series O	6,000,000
Series P	4,000,000
Series S	10,000,000

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the Registrant in connection with such Rule.

Yes [ ] No [X]

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

INCORPORATION BY REFERENCE

The Exhibits to this report are incorporated by reference.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities in relation to which the obligation to file an annual report on Form 40-F arises or transactions in said securities.

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CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision of and with the participation of the registrant's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-14(c)) under the Securities Act of 1934. Based on that evaluation our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation

CERTIFICATIONS

I, Gordon M. Nixon, President & Chief Executive Officer of Royal Bank of Canada, certify that:

1. I have reviewed this annual report on Form 40-F of Royal Bank of Canada;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (and persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

December 27, 2002.

"Gordon M. Nixon"

Gordon M. Nixon,
President & Chief Executive Officer

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I, Peter W. Currie, Vice-Chairman & Chief Financial Officer of Royal Bank of Canada, certify that:

1. I have reviewed this annual report on Form 40-F of Royal Bank of Canada;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (and persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

December 27, 2002.

"Peter W. Currie"

Peter W. Currie
Vice-Chairman & Chief Financial Officer

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

ROYAL BANK OF CANADA

By: "Gordon M. Nixon"

Name: Gordon. M. Nixon
Title: President & Chief Executive Officer

December 27, 2002

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U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

ANNUAL REPORT PURSUANT TO

SECTION 13(a) or 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

ROYAL BANK OF CANADA

EXHIBITS

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Exhibit No.	Exhibit
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	Caution Regarding Forward Looking Statements (U.S. GAAP)
	Management Discussion and Analysis (U.S. GAAP)
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ROYAL BANK OF CANADA

ANNUAL INFORMATION FORM

December 10, 2002

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Unless otherwise specified, this annual information form presents information as at October 31, 2002.

INCORPORATION

Royal Bank of Canada (the "bank") is a Schedule I bank under the *Bank Act (Canada)*, which constitutes its charter.

The corporate headquarters are located at Royal Bank Plaza, 200 Bay Street, Toronto, Ontario, Canada. The head office is located at 1 Place Ville-Marie, Montreal, Quebec, Canada.

Principal subsidiaries are described on page 25.

BUSINESS

Overview — Royal Bank of Canada (stock symbol RY on the TSX and NYSE) operates under the master brand RBC Financial Group and has five major business platforms or segments: RBC Banking (personal and commercial banking), RBC Insurance (insurance), RBC Investments (wealth management), RBC Capital Markets (corporate and investment banking), and RBC Global Services (securities custody and transaction processing) . Royal Bank of Canada is Canada's largest company as measured by assets and market capitalization. The bank serves more than 12 million personal, business and public sector clients worldwide from offices in more than 30 countries. The bank and its subsidiaries have 59,549 employees on a full-time equivalent basis worldwide. The delivery network includes 2,118 branches and service delivery units, and 4,486 automated banking machines.

RBC Banking — The personal & commercial banking segment provides banking and financial services to individuals, small and medium-sized businesses and mid-market commercial clients. The segment is structured geographically:

- In Canada, RBC Banking operates under the brand name RBC Royal Bank;
- In the United States, RBC Banking operates through RBC Centura Bank ("RBC Centura"), RBC Mortgage and RBC Builder Finance. RBC Centura is a Rocky Mount, North Carolina-based bank focused on personal and commercial markets in the Southeastern U.S. RBC Mortgage is a Chicago-based national retail mortgage originator, while RBC Builder Finance provides financing to home builders and developers;
- In the Caribbean and Bahamas, RBC Banking operates through RBC Royal Bank of Canada;
- RBC Banking also includes RBC Technology Ventures Inc, a strategic investment arm specializing in seed and early stage capital in selected high growth, emerging sectors in North America.

RBC Banking delivers services through approximately 1,117 branches in Canada, 245 in the U.S. (through RBC Centura), and 43 in the Caribbean; approximately 4,486 automated banking machines, of which approximately 275 are in the U.S., and 60 are in the Caribbean; as well as via telephone and the Internet. The segment employs over 35,000 people on a full-time equivalent basis (FTE), plus a mobile sales staff of over 700 mortgage representatives and 550 investment retirement planners.

The personal & commercial banking business delivers a wide range of financial services including deposit accounts, investments and mutual funds, credit and debit cards, business and personal loans, and residential and commercial mortgages, all supported by financial advice.

In August 2002, RBC Centura and Admiralty Bancorp, Inc., a Florida-based financial holding company, announced a definitive merger agreement. The acquisition is subject to regulatory approvals, approvals by Admiralty shareholders, and other customary closing conditions. In July 2002, RBC Centura completed the acquisition of Eagle Bancshares, Inc. and its subsidiary, Tucker Federal Bank, based in the Atlanta, Georgia metropolitan area. In June 2002, RBC Centura completed the conversion of the Largo, Florida and Atlanta, Georgia offices of Security First Network Bank into full service RBC Centura bank branches. In June 2001, the bank acquired Centura Banks, Inc. for US$2.2 billion. In April 2000, the bank acquired Prism Financial, a mortgage origination company for US$115 million.

The following are the principal RBC Financial Group companies that provide products and services under the RBC Banking brand: Royal Bank of Canada, Royal Bank Mortgage Corporation, Royal Mutual Funds Inc., RBC Centura Bank, RBC Mortgage Company, Finance Corporation of Bahamas Limited ("FINCO"), RBC Technology Ventures Inc.

RBC Insurance — The insurance segment provides a wide range of creditor, life, health, travel, home, auto and reinsurance products and services to more than five million clients in Canada, the U.S. and internationally. The segment is structured as follows:

- RBC Life Insurance Company — offers individual and group life and health insurance solutions through more than 7,000 independent brokers and over 550 career sales representatives;
- RBC General Insurance Company — offers home and auto insurance products through direct sales channels as well as employee and affinity plans;
- RBC Travel Insurance Company and Assured Assistance Inc. — provide travel insurance products and services through a network of over 4,000 travel agencies, as well as over the Internet and through bank channels;
- RBC Reinsurance (Ireland) Limited and Royal Bank of Canada Insurance Company Ltd. — offer a wide range of life reinsurance and retrocession, property and structured reinsurance to business clients around the world;
- Liberty Life Insurance Company and Liberty Insurance Services Corporation ("RBC Liberty Insurance and Genelco") are Greenville, South Carolina-based companies that provide innovative personal insurance solutions designed to help clients achieve financial goals. RBC Liberty Insurance also offers a full spectrum of administration and outsourcing as well as software solutions to the insurance and financial services industry.

In April 2002, RBC Insurance announced an agreement to acquire certain assets of the Generali Group, a Trieste, Italy-based insurer, for approximately US$220 million. These assets comprise the operations of Business Men's Assurance Company of America (BMA) and include an in force block of approximately 150,000 traditional life insurance policies and annuities as well as the infrastructure for manufacturing variable insurance products. The acquisition is subject to regulatory approvals and other customary closing conditions. In September 2001, RBC Insurance

sold the State National Fire Insurance Company which had been acquired as part of the purchase of Liberty Life Insurance Company and Liberty Insurance Services Corporation. In November 2000, the purchase of Liberty Life Insurance Company and Liberty Insurance Services Corporation closed. Also in November 2000, Liberty Insurance Services Corporation acquired certain assets of Genelco Incorporated of St. Louis, Missouri, a software technology and outsourcing service provider for the insurance industry.

The following are the principal RBC Financial Group companies that provide products and services under the RBC Insurance brand: RBC Life Insurance Company, Liberty Life Insurance Company, Royal Bank of Canada Insurance Company Ltd., RBC General Insurance Company, RBC Travel Insurance Company, Liberty Insurance Services Corporation, RBC Reinsurance (Ireland) Limited.

RBC Investments — The wealth management segment focuses on the investment needs of private clients, high net worth individuals and families, small businesses and entrepreneurs. Three distribution brand names are used by this segment:

- In Canada, RBC Investments is the brand name used by RBC Investments Financial Planning, and the Canadian & International Brokerage Group businesses:

  RBC Investments Financial Planning is a business operated jointly with the personal and commercial banking platform. This team serves domestic branch-based clients with more than $50,000 in investable assets of which a portion must include mutual funds or managed products. Financial Planning has 1,100 relationship financial planners and 550 commission-based investment and retirement planners who are also financial planners and licensed mutual funds sales people.

  The Canadian & International Brokerage Group is made up of three businesses: (1) the Canadian private client division is the retail full service brokerage arm, and has over 1,420 investment advisors and $93 billion in assets under administration across Canada. The private client division is the largest full service brokerage firm in Canada, based on assets under administration. (2) RBC Action Direct, is the second-largest Canadian self-directed brokerage service as measured by number of accounts. Currently, 79% of all trades are processed through electronic channels. (3) The group also includes the International Advisory Group, which has both Canadian and international-based employees serving international clients.

- In the United States, RBC Dain Rauscher is the brand name used. RBC Dain Rauscher is the ninth largest full-service securities firm in the U.S., with nearly 2,000 financial consultants from coast to coast. It provides affluent private clients in chosen markets with personalized comprehensive financial solutions. RBC Dain Rauscher also provides fixed income investment, financing, and strategic solutions, as well as asset management and correspondent brokerage services.

- Internationally, Royal Bank of Canada Global Private Banking is the brand name used. Global Private Banking provides private banking, trust, investment advisory, and investment counselling solutions to high net worth clients in more than 100 countries. During 2002, this business included the Canadian operations of RBC Private Counsel, private banking, and personal trust. This group provided international solutions to high net worth clients in

Canada and around the world, as well as investment counselling, advisory, private banking, and trust services in an integrated fashion from over 30 offices around the world.

In September 2002, RBC Investments realigned part of the Canadian distribution channels under a single management structure, and created the Canadian Wealth Management Group. Starting fiscal 2003, the Canadian Wealth Management Group will include the businesses of the Canadian & International Brokerage Group (the private client division, RBC Action Direct, the International Advisory Group), and the Canadian operations of RBC Private Counsel, private banking, and personal trust.

In addition to the distribution businesses above, RBC Investments also provides investment management products and services primarily through RBC Global Asset Management. Global Asset Management manages over $40 billion of assets in mutual and pooled funds and other client assets. It provides proprietary and externally managed investment management products and advisory services to private and institutional clients in Canada and worldwide through RBC Investments' distribution businesses, RBC Royal Bank's domestic sales force and external distributors. RBC Funds Inc., the largest business unit within Global Asset Management, is Canada's second largest mutual fund company measured by assets under management. Broadening the channels of distribution over the last two years has contributed to an increase of approximately 12% in the market share of this business.

The private banking business of Barclays Bank PLC in the Americas was purchased in June 2002. With offices in New York and Miami, the acquisition increases RBC's client base in the region by approximately 10% and adds US$2.9 billion of client assets consisting of discretionary investment management, investment advisory, trust and banking services. In October 2001, Tucker Anthony Sutro was purchased for US$594 million, and was integrated into RBC Dain Rauscher in the spring of 2002. Dain Rauscher was acquired for US$1.2 billion in January 2001.

The following are the principal RBC Financial Group companies that provide products and services under the RBC Investments brand: Royal Bank of Canada, Royal Trust Corporation of Canada, The Royal Trust Company, RBC Dominion Securities Inc., RBC Dain Rauscher Inc., RBC Action Direct Inc., RBC Funds Inc., Royal Bank of Canada (Channel Islands) Limited, Royal Bank of Canada Trust Company (Jersey), Royal Bank of Canada Fund Managers (Jersey) Limited., RBC Trustees (Guernsey), Limited, RBC Global Investment Management Inc.

RBC Capital Markets — The corporate and investment banking segment provides wholesale financial services to large corporate, government and institutional clients in North America and in specialized product and industry sectors globally. The segment has five operating divisions:

- Capital Markets Services — the division was formed in November 2001, by combining the equity research, sales and trading businesses with the corporate and investment banking businesses. The unit offers a full range of credit and corporate finance products, including debt and equity underwriting, mergers and acquisitions advice and execution and expertise in research and equity sales and trading activities. The division is organized along North American industry sectors and offers expertise in the energy, technology, communications, health care, consumer products, and mid-size financial institutions sectors.

- Global Financial Products — this division was formed in November 2001 to address the

continuing convergence of financial products available to clients. Its formation brought together the business activities involving the origination, syndication, securitization, trading and distribution of debt products globally. These products include loans, bonds and derivatives at both the investment grade and sub-investment grade levels. As well, Global Financial Products provides the ability to maximize internal expertise and deliver a broad array of value-added ideas and solutions to clients.

- Global Treasury Services — combines the money markets and foreign exchange businesses and provides global clients with foreign exchange, commodities, derivatives and interest rate products, as well as currency risk management and advisory services. These products and services are delivered through an extensive global sales and trading network, operating from global centres that include Toronto, London and New York. Global Treasury Services also deliver services through its Internet trading platform, FX Direct, and is a member of the multi-bank global trading platform, FXall.

- Global Credit — provides for the centralized management of all credit exposure associated with RBC Capital Markets' loan portfolio. While wholesale lending is fundamental to the attraction and expansion of high-margin client business, lending must also be strategic in order to maximize the returns to shareholders. Global Credit's portfolio and transaction management specialists use sophisticated risk management and analytical tools to ensure the pricing on loans is commensurate with the associated risk and reflects the value of all products and services a client has with RBC Financial Group.

- Alternative Investments was formed in June 2002 with a mandate to expand its wholesale asset management capabilities, which today include operations in hedge funds and private equity. The alternative asset business provides non-traditional investment opportunities to high net worth individuals, corporations and institutional clients. These investment options include private equity and hedge funds, both flagship products of RBC Capital Markets, and can extend to other vehicles such as leveraged buyouts, collateralized debt obligations and managed futures.

This segment is headquartered in Toronto and services its clients through a network of 30 offices worldwide, which includes key centres of expertise in Minneapolis, New York and London.

The following are the principal RBC Financial Group companies that provide products and services under the RBC Capital Markets brand: Royal Bank of Canada*,* RBC Dominion Securities Inc., RBC Dominion Securities Corporation, RBC Dain Rauscher Corp., Royal Bank of Canada (Europe) Ltd., RBC Alternative Assets, L.P, RBC Capital Partners Limited, Royal Bank of Canada (Caribbean) Corporation.

RBC Global Services — The transaction processing segment offers specialized transaction processing services to business, commercial, corporate, and institutional clients in domestic and selected international markets. Key businesses include investment administration, correspondent banking, cash management, payments and trade finance. The 50% interest in the Moneris Solutions joint venture with the Bank of Montreal for merchant card processing is reported under RBC Global Services. Also part of the segment is an Australian subsidiary, which was acquired in July 2001. There are three business units in the segment:

- Institutional and Investor Services — delivers custodial, trusteeship and pension services to

corporate and institutional investors using a global sales force. Institutional & Investor Services is Canada's largest custodian and the 12th largest custodian globally as measured by assets under administration. It operates from 13 locations throughout the world, with a global custody network spanning 80 markets.

- Financial Institutions — offers a comprehensive range of correspondent banking services to banks globally, and to broker-dealers within Canada. These services include cash management, payments, clearings, trade, foreign exchange, derivatives lending, securities lending, custody and settlement, and structured financing. Financial Institutions manages over 1,500 bank relationships around the world.

- Treasury Management & Trade — provides cash management services to the small and medium enterprise, commercial, corporate and public sector segments across Canada using specialized sales teams. These clients are offered a comprehensive suite of collection, disbursement and information-based electronic solutions to optimize their cash flow requirements, increasingly focused on Web-based technology. Trade related products, services and counsel are also provided to Canadian and international clients to assist them in the conduct of their import and export operations domestically and around the globe.

The following are the principal RBC Financial Group companies that provide products and services under the RBC Global Services brand: Royal Bank of Canada, Royal Trust Corporation of Canada, The Royal Trust Company, RBC Global Services Australia Pty Limited.

Competition — As the bank has entered and expanded into new lines of business, its competition has grown to include not only other banks, but also investment dealers, discount brokers, mutual fund companies, money managers, custody service providers, insurance companies, virtual banks and specialty financial service providers. Key competitive factors include the range and features of financial products, their pricing, distribution and service quality. Competition has intensified over the years as foreign providers of credit cards, mutual funds, small business loans, consumer finance and investment banking services have increasingly entered Canada.

The competitive landscape of the Canadian financial services industry consists of over 2,100 institutions, including the 'Big Six' Schedule I banks, of which the bank is one, about 25 independent trust companies, 33 foreign-owned bank subsidiaries, 20 foreign bank branches, almost 1700 credit unions and caisses populaires, 100 life insurance companies, 230 property & casualty insurers, about 150 independent investment dealers and over 55 independent retail mutual fund management companies.

In this competitive environment, the bank has the number one or number two market shares in most businesses in Canada. For example, in personal and commercial banking, its market share of residential mortgages and business loan balances were 14.94% and 12.65% respectively, at August 31, 2002 — the highest in Canada. In wealth management, the bank has the leading full service brokerage operation (by assets), and the second largest Canadian self-directed broker, RBC Action Direct, as measured by number of accounts. The bank ranks second in mutual funds among all providers in Canada and first among banks, as measured by assets under management, with net assets of over $34 billion as of September 30, 2002. The insurance operation is one of the top ten life insurance producers in Canada as measured by new individual policies issued, and is also Canada's

largest travel insurer based on premiums. In corporate and investment banking, RBC Capital Markets is a leading mergers & acquisitions advisor in Canada with transactions in excess of US$12.4 billion for the first nine months of calendar 2002, and its foreign exchange business is ranked among the top 10 in the world by reported revenues. The bank's transaction processing segment has the largest Canadian custody operations in Canada, as measured by assets under administration.

While the bank's presence in the U.S. is small, it believes the opportunities for growth are significant. Structurally, the U.S. financial services industry is fragmented, comprised of a number of monoline service providers, although the environment is also extremely competitive, dominated by both global players and niche companies. Increasingly, new business opportunities will accrue to those firms with a reputation for upholding and adhering to the highest ethical standards.

In retail banking, RBC Centura is ranked sixth by deposits in North Carolina, and ninth within its state banking footprint (North Carolina, South Carolina, Virginia, Georgia). RBC Liberty Insurance is the largest South Carolina-domiciled life insurer and the fifth largest individual insurer in the state. RBC Dain Rauscher is the ninth largest full service securities firm in the U.S. as measured by number of brokers, and RBC Capital Markets has an established reputation in corporate and investment banking.

General development of the business — In the last three years, the bank has re-aligned itself, focusing on those areas that promise high growth and strong returns. To enhance the various platforms and further diversify its operations, the bank has expanded into new geographic areas, upgraded its technologies and delivery channels, divested unprofitable businesses, and evolved new ways of doing business to meet the needs of clients.

The most significant development in the bank's business has been the U.S. acquisition strategy. In 2000, the bank added North American expansion as a key strategic priority. The bank looked to international markets to grow given its substantial market share domestically, and limited future growth in Canada. The U.S. is the most logical market in which to expand — it is the largest global economy, a contiguous region, has similar culture and language to Canada, and its banking sector offers good growth potential. Since the spring of 2000, 10 U.S. acquisitions in 4 business platforms have been made. These acquisitions have increased the bank's total customer base by approximately 2.3 million or 23% in 30 months, and contributed $3.2 billion, or 21%, of total revenues from $1.7 billion, or 12%, in 2001.

Summarized in the following table are the bank's major U.S. and other acquisitions over the past three years:

BUSINESS	ACQUISITION	KEY CHARACTERISTICS (1)
RBC Banking	Admiralty Bancorp, Inc (announced 2002)	• Purchase price of US$150 million cash. (The acquisition is subject to regulatory approvals, approvals by shareholders of Admiralty and other customary closing conditions) • Contiguous expansion of RBC Centura in southeast U.S. • Expanded into attractive, high-growth Florida market • US$578 million in assets, US$527 million in deposits and 17,500 accounts at time of purchase
	Eagle Bancshares, Inc (2002)	• Paid US$149 million cash • Expansion of RBC Centura in south-eastern U.S. • Expanded into attractive, high growth Atlanta market • Acquired $1.1 billion in assets, $0.8 billion in deposits and 90,000 accounts at time of purchase
	Centura Banks, Inc. (2001)	• Paid US$2.2 billion in bank common shares. Exchange ratio: 1.684 bank common share for each Centura Banks, Inc. common share • Provided strong foothold in attractive higher growth south- eastern U.S. market • 14th largest bank by deposits in the south-eastern U.S. at time of purchase • Acquired US$13.5 billion in assets, US$7.4 billion in deposits and 650,000 clients at time of purchase
	Bank One Corporation — Canadian retail credit card business (2000)	• Opportunity to strengthen cardholder base
	Prism Financial Corporation (2000)	• Paid US$115 million cash • Niche entry in U.S. residential mortgage origination business • Large experienced sales force • Operated through over 150 branches in more than 25 states at time of purchase • An entrepreneurial company with a successful Internet strategy and a strong focus on private labelling their products to leverage recognized brands • Strong cost management focus
RBC Insurance	Business Men's Assurance Company of America — U.S. variable life insurance business (announced 2002)	• Along with the mutual fund company, Jones & Babson, total consideration expected to be US$220 million. (The acquisition is subject to regulatory approvals, approvals by shareholders, and other customary closing conditions) • Will leverage RBC Liberty Insurance's outsourcing and administration capability and also builds on the cross platform capability for wealth management products
	Genelco Incorporated — Certain Assets Purchased (2001)	• Certain software and outsourcing assets purchased (amount not disclosed) by Liberty Insurance Services Corporation • The assets brought new third party administration expertise to the variable life and variable annuity markets
	Liberty Life Insurance Company and Liberty Insurance Services Corporation (2001)	• Paid US$580 million cash • Established brand in south-eastern U.S. market • Agency, direct and third party administration businesses • U.S. platform to expand into other forms of insurance and distribution
	Prudential of America Life Insurance Co. (Canada) — Canadian individual life insurance and annuity business	• $130 million in annual premiums (1999) • Increased RBC Insurance's premiums by approximately 15% to over $1 billion at time of purchase
	and 15% interest in PPI Partners (2000)	• Predominantly high net worth clients at time of purchase • Excellent fit with the bank's wealth management focus
RBC Investments	Barclays' private banking operations in the Americas (2002)	• Net purchase price up to US$90 million, dependent in part on client transfers and retention • Offices in New York, and Miami complement existing RBC Global Private Banking offices • Approximately 850 client relationships, US$2.9 billion in client assets and US$30 million in revenues at time of purchase
	Jones & Babson Inc (Business Men's Assurance's Mutual Fund company) (announced 2002)	• Mutual Fund Company. Along with the U.S. direct life insurance operations, total consideration expected to be U.S. $220 million. (The acquisition is subject to regulatory and shareholder approval, and other customary closing conditions)

- Builds cross platform capability for wealth management products

BUSINESS	ACQUISITION	KEY CHARACTERISTICS (1)
RBC Investments	Tucker Anthony Sutro Corporation (2001)	• Paid US$594 million cash • At time of purchase, 300,000 accounts, 990 Investment Advisors, US$48 billion assets under administration • Combined with RBC Dain Rauscher created 9th largest full service broker
	Dain Rauscher Corporation (2001)	• US$1.227 billion paid for entire company, i.e. for retail brokerage and investment banking businesses • Doubled size of North American full-service brokerage operation • US$62 billion in client assets under administration (Private Client Group) at time of purchase • 500,000 active customer accounts in 21 states in the U.S. at time of purchase
	Ernst & Young— private client trust business in Jersey (2000)	• $14 billion in client assets under administration at time of purchase • 4,000 clients over a diversified geographic area • 17 E&Y partners brought wealth of experience and international trust and taxation expertise • Substantial revenue synergies
	Ernst & Young — private client trust and fiduciary services businesses in Guernsey (1999)	• $3.7 billion in client assets under administration • 1,650 clients largely based in the U.K., Continental Europe, Southern Africa at time of purchase
	Hartleys Limited (1998) (previously named Hartley Poynton)	• Currently 28.7% stake in Australian broker • Expanded international presence in wealth management • Online investing capability
RBC Capital Markets	Dain Rauscher Wessels (2001)	• Enhanced RBC Capital Markets' ability to serve domestic clients in U.S. market • Provided stronger U.S. equity origination & distribution • Expanded focused coverage in health care, mid-sized financial institutions and consumer services sectors • Enabled RBC Capital Markets to leverage its U.S. capabilities in high yield, corporate banking, M&A, treasury and derivative products across a broader customer base
RBC Global Services	Perpetual Fund Services (2001)	• One of Australia's largest providers of outsourced back-office administration to fund managers • Client assets under administration of $61 billion and annual revenue of approximately $30 million at time of purchase

(1) At time of acquisition

Outside North America, the bank will focus only on those businesses where it is strong globally, has a competitive advantage, and can generate attractive returns. Examples of these businesses are global custody, global private banking, and foreign exchange. The bank will also look for opportunities to expand through a combination of internal growth, partnerships and niche acquisitions, and is committed to growing profitable relationships by using the expertise it has developed in customer relationship management, data warehousing and predictive modeling.

Technological change is also making market entry and success possible from a distance, with large-scale physical presence increasingly relevant to market penetration. Technological advancements play a key role in the development of the bank's businesses. The number of clients using electronic channels continues to increase with the number of Canadian online clients up to 2,310,000 from just 530,000 in 1999. As transaction activity shifts from the physical channels to electronic, the bank's branches have evolved to become sales outlets, with a greater focus on relationship building and advice than on transaction. New service delivery options such as in-store branches and mobile bankers offer greater flexibility to clients and reflect their changing needs and preferences. Significant investments in new technology are required to keep pace with customer needs and to support new growth opportunities.

GOVERNMENT SUPERVISION AND REGULATION — CANADA

Supervision and regulation — The bank and its Canadian trust and loan subsidiaries and insurance subsidiaries are federally regulated financial institutions governed by the Bank Act (Canada), Trust and Loan Companies Act (Canada) and Insurance Companies Act (Canada).

The Superintendent of Financial Institutions (Canada) (the "Superintendent") is responsible to the Minister of Finance (Canada) (the "Minister") for the supervision of the bank and its Canadian loan and trust company and insurance subsidiaries. The Superintendent must, at least once a year, examine the affairs and business of each institution for the purpose of determining whether statutory requirements are duly observed and the institution is in sound financial condition, and report to the Minister. Federally regulated financial institutions must make periodic reports to the Minister and the Bank of Canada.

Where the Superintendent is concerned about an unsafe course of conduct or an unsound practice in conducting the business of an institution, the Superintendent may direct the institution to refrain from a course of action or to perform acts necessary to remedy the situation. The Superintendent may, in certain circumstances, take control of the assets of an institution.

Under the Financial Consumer Agency of Canada Act (the "FCAC Act") enacted in 2001, the Financial Consumer Agency of Canada (the "Agency") enforces consumer-related provisions of the federal statutes which govern financial institutions. "Consumer provisions" include Bank Act and Trust and Loan Companies Act provisions dealing with customer complaint procedures, notice requirements regarding Canada Deposit Insurance Corporation insurance, notice requirements for branch closure and disclosure obligations regarding borrowing, deposits and account charges. The bank is required to offer basic banking services, including low-cost accounts and government cheque cashing services to individuals meeting certain prescribed conditions.

The Commissioner of the Agency (the "Commissioner") has the duty to examine federal financial institutions to ensure compliance with consumer provisions which apply to them. The Commissioner has the power to issue notices of violation and to compel the disclosure of personal information necessary to ensure compliance. In addition, the Commissioner may carry on any activity in furtherance of public awareness.

The Commissioner must report to the Minister on all matters connected with the administration of the FCAC Act and consumer provisions of other federal statutes, including the Bank Act (Canada), Trust and Loan Companies Act (Canada) and Insurance Companies Act (Canada).

The activities of the bank's trust and loan subsidiaries and insurance subsidiaries are also regulated in Canada under provincial laws.

The activities of bank subsidiaries acting as securities brokers, dealers (including investment and mutual fund dealers), underwriters and advisors (including investment counsel and portfolio

managers) are regulated in Canada under provincial securities laws and, in some cases, by the Investment Dealers Association.

Royal Bank of Canada, Royal Trust Corporation of Canada, The Royal Trust Company and Royal Bank Mortgage Corporation are member institutions of the Canada Deposit Insurance Corporation (the "CDIC"). The CDIC insures certain "deposits" (as defined in Schedule 2 to the CDIC Act) held at the member institutions.

The CDIC has adopted by-laws for its member institutions, including those establishing Standards of Sound Business and Financial Practices. These require the board and senior management to establish objectives in respect of the strategic management of the business, to evaluate the financial results, and to have developed understanding of, and processes to deal with, the risks inherent in the business, including those in relation to liquidity and funding, capital management, internal control and audit. Processes are also required to mitigate credit, market, structural, fiduciary and operational risk. Senior management and directors must acknowledge their responsibilities in that regard and attest to the institution's ability to meet such standards in its operations. An institution's boards of directors must approve a 'standards report' required to be filed with CDIC.

The level of premiums and the frequency of the filing of reports with the CDIC is linked to the classification of the member institution under the CDIC Differential Premiums By-Law. Under the By-law, each member institution is classified in a premium category that is based on a rating of quantitative and qualitative factors and criteria assigned to it by a CDIC examiner. A CDIC member institution is not permitted to disclose CDIC premium rate information, including examiner's ratings.

Capital, Liquidity and Dividends — The bank and its Canadian trust and loan subsidiaries and insurance subsidiaries must maintain, in relation to their operations, adequate capital and adequate and appropriate forms of liquidity and the Superintendent may direct an institution to increase its capital or to provide additional liquidity. Regulatory capital requirements have been implemented through guidelines issued by the Superintendent and, with respect to the bank, are based on standards issued by the Bank for International Settlements.

The directors of the bank may not declare, and the bank may not pay, a dividend if there are reasonable grounds for believing that the payment would cause the bank to be in contravention of any direction of the Superintendent respecting the maintenance of adequate capital and liquidity. A bank may not declare or pay a dividend in any financial year without the approval of the Superintendent if, on the day the dividend is declared, the total of all dividends declared by the bank in that year would exceed the aggregate of the bank's net income up to that day in that year and of its retained net income for the preceding two financial years.

In addition, the bank may not pay dividends on its common shares at any time unless all dividends to which preferred shareholders are then entitled have been declared and paid or set apart for payment.

The bank has agreed that if RBC Capital Trust (a closed-end trust which is a subsidiary of the bank) fails to pay any indicated distribution on its capital trust securities, the bank will not declare dividends of any kind on any of its preferred or common shares.

The bank's medium-term goals (three to five years) include a dividend payout ratio of 35% to 45%. The dividend payout ratio is common dividends as a percentage of net income after preferred dividends.

Minimum capital requirements for subsidiaries that are broker-dealers, mutual fund dealers and investment advisors in Canada are set by regulations under provincial securities laws. The Investment Dealers Association of Canada also sets minimum capital requirements for the subsidiaries that are broker-dealers in Canada and the Mutual Fund Dealers Association of Canada sets minimum capital requirements for subsidiaries that are mutual fund dealers in Canada.

Business — The Bank Act prohibits a bank from engaging in or carrying on any business other than the business of banking and such business generally as appertains to the business of banking. The business of banking includes the provision of any financial service, acting as a financial agent, providing investment counselling services and portfolio management services, issuing payment, credit or charge cards and operating a payment, credit or other charge card plan.

There are limited additional powers that enable a bank to engage in other businesses, including information and data processing. A bank may, outside Canada, or with the prior written approval of the Minister or as permitted by regulations, in Canada, engage in any activities which consist of (1) collecting, manipulating and transmitting (a) information that is primarily financial or economic in nature, (b) information that relates to the business of an entity in which a bank is permitted to hold a substantial investment, or (c) any other information that the Minister may, by order, specify; (2) providing advisory or other services in the design, development or implementation of information management systems; (3) designing, developing or marketing computer software, and (4) designing, developing, manufacturing or selling, as an ancillary activity to any of the foregoing activities, computer equipment integral to the provision of information services related to the business of financial institutions or to the provision of financial services.

A bank may, with the prior written approval of the Minister, develop, design, hold, manage, manufacture, sell or otherwise deal with data transmission systems, information sites, communication devices or information platform or portals that are used (1) to provide information that is primarily financial or economic in nature; (2) to provide information that relates to the business of an entity in which a bank is permitted to make a substantial investment; or (3) for a prescribed purpose or in prescribed circumstances;

Investments — The Bank Act provides broad powers to invest in securities, but limits "substantial investments". A "substantial investment" will arise through direct or indirect beneficial ownership of voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of a body corporate, shares representing more than 25% of the shareholders' equity in a body corporate, or more than 25% of the ownership interests in any other entity.

The directors of the bank and its Canadian trust and loan subsidiaries and insurance subsidiaries must establish, and these federally regulated financial institutions must adhere to, investment and lending policies, standards and procedures that avoid undue risk of loss and achieve a reasonable return.

The Bank Act permits banks to make controlling, and in certain circumstances, non-controlling substantial investments in Canadian banks; trust or loan companies; insurance companies; cooperative credit societies; entities primarily engaged in dealing in securities (including investment counselling and portfolio management); in foreign entities which are primarily engaged outside Canada in a business that if carried on in Canada would be the business of banking, the business of a cooperative credit society, the business of insurance, the business of providing fiduciary services or the business of dealing in securities; and in factoring; finance; financial leasing; specialized financing and financial holding entities. The Bank Act also permits substantial investments, in some cases only with the approval of the Minister or the Superintendent, in information services, investment counselling and portfolio management, mutual fund, mutual fund distribution, real property brokerage, real property and service entities.

Share ownership and voting restrictions — The Bank Act prohibits any person from having a "significant interest" in any class of shares of the bank, that is, from beneficially owning more than 10% of the outstanding shares of the class either directly or through controlled entities, without the approval of the Minister. A person may, with the approval of the Minister beneficially own up to 20% of a class of voting shares and up to 30% of a class on non-voting shares of the bank, subject to a "fit and proper" test based on the character and integrity of the applicant. In addition, the holder of such a significant interest could not have "control in fact" of the bank, to be determined in accordance with guidelines to be issued by the Minister.

The Bank Act prohibits voting of shares beneficially owned (directly or through controlled entities) by a person who acquired a significant interest in any class of shares of the bank without the approval of the Minister, and the voting of shares that are subject to an agreement entered into by such a person (or a controlled entity) relating to the exercise of voting rights. It also prohibits voting of shares beneficially owned (directly or through controlled entities) by a person who has significant interest in any class of shares of the bank and who has a significant interest in any class of shares of another "widely held" bank that is listed in Schedule I or II of the Bank Act and has equity of $5 billion or more.

The Bank Act prohibits the registration of a transfer or issue of any shares of the bank to Her Majesty in right of Canada or of a province or any agent or agency of Her Majesty in either of those rights, or to the government of a foreign country or any political subdivision of a foreign country, or any agent or agency of a foreign government.

The Bank Act prohibits any person from exercising voting rights attached to shares beneficially owned by Her Majesty in right of Canada or of a province or any agency of Her Majesty in either of those rights, or by the government of a foreign country, or any political subdivision or agency thereof.

Money laundering and anti-terrorism legislation — In June 2000, Canada enacted the Proceeds of Crime (Money Laundering) Act to implement measures to assist in detecting and deterring money laundering and facilitate the investigation of money laundering offences. The Act and associated regulations impose reporting, record keeping and "know your customer" obligations on certain financial entities, including securities dealers and insurance companies. Under the regulations currently in force, financial entities must report to FinTRAC, an agency formed under the auspices of the Minister of Finance, any transaction which they have reason to suspect relates to the commission of a money laundering offence (and, post-September 2001, a terrorist financing activity offence) and cross-border wire transfers over a certain threshold. As well, these financial entities are required to verify their customers' identities, using prescribed measures, and to retain defined customer records for prescribed periods. Additional regulations will come into force in early 2003 to require reporting of certain large cash transactions, cross-border currency transactions and cross-border electronic funds transfers.

In addition, in response to the events of September 2001, the Canadian Criminal Code was amended to prohibit financial institutions (among many others) from knowingly dealing in property of, or providing financial services to, persons listed in regulations adopted under the Code or others known to be involved in terrorist activity. The Code also requires financial institutions to search their customer records periodically and report to their Canadian regulators and Canadian law enforcement agencies as to whether they have identified any accounts or property of a listed person.

The bank and its affected subsidiaries have established appropriate policies and processes to ensure compliance with existing anti-money laundering and anti-terrorism regulatory requirements and, in anticipation of the regulations expected in 2003, have plans to augment their compliance regimes as required.

GOVERNMENT SUPERVISION AND REGULATION — UNITED STATES

U.S. Banking Regulation of the bank and its subsidiaries — The bank's operations in the U.S. are regulated under U.S. federal and state law.

The bank's New York branches are licensed and supervised as federal branches by the Office of the Comptroller of the Currency (the "Comptroller"). In general, such a branch can exercise the same rights and privileges, and is subject to the same restrictions, as would apply to a national bank at the same location. As a foreign bank in the U.S., the bank's New York branches may not take domestic retail deposits and their deposits are not insured by the Federal Deposit Insurance Corporation ("FDIC").

The bank's agency in Miami is licensed and supervised by the state of Florida. An agency of a foreign bank in the U.S. may not take deposits from U.S. persons. The bank's Houston representative office is licensed and regulated by the state of Texas. The bank's Connecticut representative office is licensed and regulated by the state of Connecticut. Representative offices are limited in their activities and may not take deposits or make loans.

The Comptroller and the state regulators of Florida, Texas and Connecticut can examine and

supervise the activities of the bank at its various offices in the U.S. Such examination authority may include annual assessments on the operations of the bank to fund the regulators' operations. In addition, the bank is required to maintain certain liquid assets on deposit and pledged to the appropriate regulators based on the amount of branch or agency assets of the bank in each state location. Furthermore, the bank is subject to supervisory guidance based on examinations at its U.S. offices and the examiners' assessment of risk management, operational controls, compliance and asset quality of the bank's U.S. offices. The bank may also be subject to prudential guidance regarding the amount of U.S. deposited funds it may repatriate to Canada for funding of the entirety of the bank.

Under the International Banking Act of 1978 (the "IBA"), all the operations of the bank in the U.S. are also subject to supervision and regulation by the Board of Governors of the Federal Reserve ("the Federal Reserve"). Under the IBA, the bank may not open any branch, agency or representative office in the U.S., or acquire more than 5% of the voting stock of any U.S. bank or bank holding company, without the prior approval of the Federal Reserve.

The bank can establish or acquire full branches outside its home state of New York only if the other state expressly permits such branches to be established or acquired by an out-of-state U.S. bank. However, as with all branches of foreign banks in the U.S., such branches may not engage in retail deposit-taking or obtain FDIC insurance.

Effective on March 11, 2000, The Gramm-Leach-Bliley Act:

- allows bank holding companies and foreign banks that qualify as financial holding companies to engage in a substantially broader range of non-banking activities than previously permissible, including insurance underwriting, securities underwriting and dealing and making merchant banking investments;
- allows insurers and other financial services companies to acquire banks; and
- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies.

To qualify as a financial holding company a non-U.S. bank with a branch or agency in the U.S. must meet certain capital requirements and must be deemed to be "well managed" for U.S. bank regulatory purposes.

The capital requirements are set forth in Federal Reserve regulations, and provide that for a non-U.S. bank from a country that has adopted the capital standards issued by the Bank for International Settlements ("BIS") to qualify to be a financial holding company, the general requirements are a minimum Tier 1 risk-based capital ratio of 6% and a Total risk-based capital ratio of 10%, all calculated according to home country rules. The bank's home country capital strength rules are based on standards issued by the BIS. In addition, the non-U.S. bank's capital must be "comparable" to that required of a U.S. depository institution subsidiary of a financial holding company. The Federal Reserve regulations also provide that a non-U.S. bank that does not meet the above numerical requirements at the non-U.S. bank level may seek a determination that its capital is

comparable to that required of a U.S. depository institution subsidiary of a financial holding company. In addition, each U.S. depository institution subsidiary of the non-U.S. bank, such as RBC Centura Bank, must meet minimum ratios of 5% for Tier 1 leverage, 6% for Tier 1 risk-based capital and 10% for Total risk-based capital, and no U.S. depository institution subsidiary may be subject to a regulatory order to maintain a specified level of capital. Both the bank and RBC Centura Bank were deemed to be "well capitalized" as of October 31, 2002.

For a non-U.S. bank to be deemed to be "well managed" for U.S. bank regulatory purposes, each of its U.S. branches and agencies must have received a "satisfactory" composite regulatory rating in its last examination, the bank's home country supervisor must consider its overall operations to be satisfactory and the bank's management must meet standards comparable to those required of a U.S. bank subsidiary of a financial holding company. In addition, each U.S. depository institution subsidiary of the non-U.S. bank must be deemed to be "well managed", which requires both a "satisfactory" composite regulatory rating and a satisfactory rating on the "management" component, both in its last examination. Finally, in addition, each U.S. depository institution subsidiary must have at least a "satisfactory" rating under the Community Reinvestment Act.

The bank's declaration to become a financial holding company became effective on March 13, 2000 and remains effective.

As a financial holding company, the bank may conduct, or acquire a company (other than a U.S. depository institution or foreign bank) engaged in, activities that are "financial in nature," as well as additional activities that the Federal Reserve determines (in the case of incidental activities, in conjunction with the Department of the Treasury) are incidental or complementary to financial activities, without the prior approval of the Federal Reserve. Under the Gramm-Leach-Bliley Act, activities that are financial in nature include insurance, securities underwriting and dealing, merchant banking, and sponsoring mutual funds and investment companies. Under the new merchant banking authority added by the Gramm-Leach-Bliley Act, financial holding companies may invest in companies that engage in activities that are not otherwise permissible "financial" companies, subject to certain limitations, including that the financial holding company makes the investment with the intention of limiting the investment duration and does not manage the company on a day-to-day basis.

Financial holding companies that do not continue to meet all the requirements for financial holding company status will, depending on which requirement they fail to meet, lose the ability to undertake new activities or acquisitions that are financial in nature or lose not only the ability to undertake such new activities or acquisitions but also the ability to continue those activities that are not generally permissible for bank holding companies. If the bank ceases to so qualify it would be required to obtain the prior approval of the Federal Reserve to engage in non-banking activities in the U.S. or to acquire more than 5% of the voting stock of any company that is engaged in non-banking activities in the U.S. With certain exceptions, the Federal Reserve can only approve applications involving activities it had previously determined, by regulation or order, are so closely related to banking as to be properly incident thereto.

The Gramm-Leach-Bliley Act also modified U.S. law related to financial privacy and community reinvestment. The new financial privacy provisions generally prohibit financial

institutions in the U.S., including RBC Centura Bank, RBC Dominion Securities Corporation, RBC Dain Rauscher Corp., Tucker Anthony Incorporated and Sutro & Co., Inc., from disclosing nonpublic personal financial information to third parties unless the clients have the opportunity to "opt out" of the disclosure.

RBC Centura Bank was acquired by the bank in June 2001 and is the bank's largest U.S. banking subsidiary. RBC Centura Bank is a North Carolina state chartered bank and is supervised by the Federal Reserve and the North Carolina Office of the Commissioner of Banks (the "NC Commissioner"). RBC Centura Bank's deposits are insured by the FDIC. RBC Centura Bank is subject to capital requirements, dividend restrictions, limitations on investments and subsidiaries, limitations on transactions with affiliates (including RBC and its branches and agencies), deposit reserve requirements and other requirements administered by the Federal Reserve and the NC Commissioner. As a holding company of RBC Centura Bank, the bank is subject to regulation by the Federal Reserve as a bank holding company. As a bank holding company, the bank generally may not acquire more than 5% of the voting shares of a bank or bank holding company without the prior approval of the Federal Reserve.

As a bank holding company and financial holding company, under Federal Reserve policy, RBC is expected to act as a source of strength for, and commit its resources to support, RBC Centura Bank. This support may be required at times when RBC may not be inclined to give it.

RBC Centura Bank is also subject to the Community Reinvestment Act (the "CRA"). Under the CRA, during examinations of the bank, the Federal Reserve or the NC Commissioner is required to assess the bank's record in meeting the credit needs of the communities serviced by RBC Centura Bank, including low- and moderate-income communities. In the case of a bank holding company or financial holding company applying for approval to acquire a bank or bank holding company in the U.S., the Federal Reserve will assess the records of each U.S. bank subsidiary of the applicant holding company, and such records may be the basis for denying an application. Banks are given one of four ratings under the CRA: "outstanding", "satisfactory", "needs to improve" or "substantial noncompliance". RBC Centura Bank is currently "satisfactory rated".

U.S. insured banks are also subject to FDIC insurance assessments, which may depend on the level of capitalization of the bank. The assessment rates may be different for deposits insured under the Bank Insurance Fund maintained by the FDIC and deposits insured under the Savings Association Insurance Fund maintained by the FDIC. RBC Centura Bank maintains deposits insured by both funds. Because of favourable loss experience and a healthy reserve ratio in the insurance funds of the FDIC, well capitalized and well managed banks, including RBC Centura Bank, have in recent years paid no premiums for FDIC insurance. However, a number of factors suggest that, in the near future, even well capitalized and well managed banks may be required to pay premiums on deposit insurance. The amount and impact of such premiums will depend on the outcome of U.S. legislative and regulatory initiatives as well as the insurance fund loss experience and other factors, none of which RBC or RBC Centura Bank is in a position to predict at this time.

RBC Centura Banks, Inc., a holding company subsidiary of RBC and the parent of RBC Centura Bank, is also regulated as a bank holding company and a financial holding company.

USA Patriot Act — On October 26, 2001, the United States adopted the USA Patriot Act in response to the events of September 11, 2001. The Act requires U.S. banks and foreign banks with U.S. operations to take certain steps to prevent, detect and report individuals and entities involved in international money laundering and the financing of terrorism. The required actions include verifying the identity of customers, terminating correspondent accounts for foreign "shell banks" and obtaining information about the owners of foreign bank clients and the identity of the foreign bank's agent for service of process in the U.S.

The Act also expands the power of the U.S. government to subpoena foreign banks for records relating to transactions in their U.S. correspondent accounts, including records kept outside the U.S. The Act grants federal courts so-called "long-arm" jurisdiction over a foreign person, including a foreign financial institution, under certain circumstances.

The scope of the Act is being determined, to some degree, by the regulations that are being adopted to implement its provisions. The U.S. Secretary of the Treasury has published interim guidance and certain regulations to implement some portions of the Act, and is expected to propose additional regulations to implement other sections. Although we cannot predict when and in what form these regulations will be adopted, we believe that the cost of compliance with the Act is not likely to be material to us, and that compliance with the Act is not expected to have a material effect on our global operations.

Transactions with Affiliates — U.S. Federal laws strictly limit the ability of U.S. banks to engage in certain transactions with affiliates, including their bank holding companies. Such transactions between a bank, such as RBC Centura Bank, and its parent holding company or the nonbank subsidiaries of the holding company are limited to 10% of a bank's capital and surplus and, with respect to such parent company and all such nonbank subsidiaries, to an aggregate of 20% of the bank subsidiary's capital and surplus. Further, loans and extensions of credit generally are required to be secured by eligible collateral in specified amounts. Federal law also requires that all transactions between a bank and its affiliates be on terms as favourable to the bank as transactions with non-affiliates.

On October 31, 2002, the Federal Reserve adopted a new set of regulations, effective April 1, 2003, that will make such limitations applicable to U.S. branches and agencies of foreign banks in their transactions with affiliates engaged in non-credit related insurance underwriting, securities underwriting and dealing, merchant banking and insurance company investment activities. In addition, other regulations already in effect subject transactions between a U.S. branch and agency of a foreign bank and a company held under merchant banking authority to the transaction limitations. Prior to these rules, U.S. branches and agencies of foreign banks, such as the bank's RBC's branches and agencies, had not been subject to the affiliate transaction limitations.

U.S. Regulation of broker-dealer subsidiaries — The bank's U.S. broker-dealer subsidiaries are RBC Dominion Securities Corporation, RBC Dain Rauscher Corp., Tucker Anthony Incorporated and Sutro & Co., Inc. All of these broker-dealer subsidiaries are regulated by the U.S. Securities and Exchange Commission, the New York Stock Exchange and the National Association of Securities Dealers.

The bank's registered broker-dealer subsidiaries are subject to the SEC's net capital rule, Rule 15c3-1 (the "Net Capital Rule"), promulgated under the Exchange Act. The Net Capital Rule requires the maintenance of minimum net capital, as defined. Compliance with the Net Capital Rules could limit their operations that require the intensive use of capital, such as underwriting and trading activities and the financing of customer account balances. The Net Capital Rule also limits the ability of broker-dealers to transfer capital to the bank or its affiliates.

U.S. Insurance — State Regulation — RBC Liberty Insurance ("Liberty Life Insurance Company and Liberty Insurance Services Corporation"), the bank's U.S. insurance subsidiary ("RBC Liberty Insurance"), is subject to the regulation of the South Carolina Department of Insurance (the "SC Department") and in the various states and jurisdictions in which it transacts business. The SC Department's regulation, supervision and administration relates, among other things, to the standards of solvency that RBC Liberty Insurance must maintain, the licensing of RBC Liberty Insurance and its agents, the lines of insurance in which RBC Liberty Insurance may engage, the nature of and limitations on investments, premium rates, restrictions on the size of risks that may be insured under a single policy, reserves and provisions for unearned premiums, losses and other obligations, deposits of securities for the benefit of policyholders, approval of policy forms and the regulation of market conduct including the use of credit information in underwriting as well as other underwriting and claims practices. The SC Department also periodically examines the affairs of RBC Liberty Insurance and require RBC Liberty Insurance to file annual and other reports relating to its financial condition and other matters.

Although the bank is not regulated as an insurance company, it is the owner, through its subsidiary RBC Insurance, of the capital stock of RBC Liberty Insurance and as such is subject to the South Carolina state insurance holding company laws. The South Carolina holding company statute, as well as certain other laws, require disclosure and, in some instances, prior approval of material transactions between an insurance company and an affiliate.

RBC Liberty Insurance is subject to state statutory and regulatory restrictions that limit the amount of dividends or distributions by an insurance company to its stockholders.

As did many other life insurance companies in the United States, Liberty Life Insurance Company for many years followed an industry practice that resulted in higher premiums being charged to African-Americans because of differences in life expectancy between African-Americans and whites. The issuance of policies subject to these terms, which was regulated and approved at the time by state departments of insurance, ended in the 1960s, many years before the bank acquired the company. Following an examination of Liberty Life Insurance Company industrial life block, the SC Department concluded that disparate premiums was a violation of the South Carolina insurance laws, and issued an order (the "Order") imposing on Liberty Life Insurance Company a $2 million fine and a one year suspension of its license to conduct insurance business in South Carolina. Liberty Life Insurance Company is contesting the Order in an administrative proceeding. Under South Carolina law, a timely contested regulatory order does not take effect and the regulatory agency bears the burden of establishing the facts and the law to support a charge of a statutory violation. After the parties filed motions for summary judgment, the administrative law judge determined that the state statutes did prohibit risk classification that took race into consideration. Liberty Life Insurance

Company has now entered a second phase of the administrative proceeding in which the administrative law judge will hear testimony and receive evidence concerning possible remedies for policyholders and determine what administrative penalties, if any, are appropriate. An agency's request for a particular penalty is not entitled to deference by the administrative law judge.

SELECTED CONSOLIDATED FINANCIAL INFORMATION (1)

(In $ millions, except per share and percentage amounts)	2002	2001	2000
Earnings ***(For the year ended October 31)***			
Net interest income (2)	$ 7,198	$ 6,549	$ 5,307
Other income	8,562	8,215	6,732
Gross revenues (2)	15,760	14,764	12,039
Provision for credit losses	1,065	1,119	691
Non-interest expense	10,420	9,755	7,581
Net income	2,762	2,411	2,274
Preferred share dividends	98	135	134
Net income available to common shareholders	2,664	2,276	2,140
Return on common equity	15.8%	16.4%	19.8%
Economic Profit (3)	712	539	764
Balance sheet & off-balance sheet data ***(As at October 31)***			
Loans	$ 169,258	$ 169,110	$ 154,344
Assets	376,956	359,260	289,740
Deposits	243,486	233,447	202,896
Subordinated debentures	6,614	6,513	5,825
Preferred shares	1,545	2,024	2,037
Common equity	17,238	16,141	11,504
Assets under administration	1,365,900	1,342,500	1,175,200
Assets under management	90,800	100,000	92,300
Capital ratios ***(As at October 31)*** (4)			
Common equity to risk-adjusted assets	10.4%	9.4%	7.3%
Tier 1 capital ratio	9.3%	8.7%	8.6%
Total capital ratio	12.7%	11.8%	12.0%
Common share information ***(For the year ended October 31)***			
Shares outstanding *(thousands)*			
- end of year	665,257	674,021	602,398
- average basic	672,571	641,516	606,389
- average diluted	678,120	647,216	609,865
Earnings per share			
- basic	$ 3.96	$ 3.55	$ 3.53
- diluted	3.93	3.52	3.51
Share price — High	$ 58.89	$ 53.25	$ 48.88
- Low	45.05	41.60	27.25
- Close — October 31	54.41	46.80	48.30
Dividends per share (5)	1.52	1.38	1.14
Book value per share — October 31	25.91	23.95	19.10
Market capitalization *($ billions)*	36.2	31.5	29.1
Number of: *(As at October 31)*			
Employees (full-time equivalent)	59,549	57,568	49,232
Automated banking machines	4,486	4,545	4,517
Service delivery units			
Canada	1,311	1,317	1,333
International (6)	807	724	306

(1) Financial measures are derived from Canadian GAAP consolidated financial statements, unless otherwise noted.

(2) Taxable equivalent basis.

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

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

(5) The bank's medium term goals (three to five years) include a dividend payout ratio of 35% to 45%. The dividend payout ratio is common dividends as a percentage of net income after preferred dividends.

(6) International service delivery units include branches, specialized business centres, representative offices and agencies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The "Management's Discussion and Analysis of Financial Condition and Results of Operations" that has been filed separately with Canadian securities regulatory administrators on the System for Electronic Document Analysis and Retrieval ("SEDAR") is incorporated by reference.

MARKET FOR SECURITIES

Common shares of the Bank are listed on the Toronto Stock Exchange (S&P/TSX) in Canada, the New York Stock Exchange in the U.S.A. (NYSE), and the Swiss Exchange (SWX) in Switzerland.

Preferred shares are listed on the TSX.

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DIRECTORS AND EXECUTIVE OFFICERS

Directors — The following are the directors of the bank and their municipalities of residence, as at December 10, 2002:

Name	Municipality of Residence	Occupation
W. Geoffrey Beattie (4) (2001)	Toronto	President, The Woodbridge Company Limited Deputy Chairman, The Thomson Corporation
George A. Cohon (3) (1988)	Toronto	Founder and Senior Chairman, McDonald's Restaurants of Canada Limited
Douglas T. Elix (4) (2000)	Ridgefield, Connecticut	Senior Vice-President and Group Executive, IBM Global Services, IBM Corporation
John T. Ferguson (1),(2) (1990)	Edmonton	Chairman of the Board, Princeton Developments Ltd. Chair of the Board, TransAlta Corporation
L. Yves Fortier (2),(3) (1992)	Montreal	Chairman, Ogilvy Renault Chairman of the Board, Alcan Inc.
The Hon. Paule Gauthier (2),(4) (1991)	Quebec City	Senior Partner, Desjardins Ducharme Stein Monast
Brandt C. Louie (2) (2001)	West Vancouver	President and Chief Executive Officer, H.Y. Louie Co. Limited Chairman and Chief Executive Officer, London Drugs Limited
J. Edward Newall (1),(3) (1984)	Calgary	Chairman of the Board, NOVA Chemicals Corporation Chair of the Board, Canadian Pacific Railway Limited
Gordon M. Nixon (2001)	Toronto	President and Chief Executive Officer, Royal Bank of Canada.
David P. O'Brien (3),(4) (1996)	Calgary	Chairman of the Board, EnCana Corporation
Charlotte R. Otto (3) (2000)	Cincinnati, Ohio	Global External Relations Officer, The Procter & Gamble Company
Robert B. Peterson (1),(4) (1992)	Toronto	Company Director
J. Pedro Reinhard (1) (2000)	Midland, Michigan	Executive Vice-President and Chief Financial Officer, The Dow Chemical Company
Hartley T. Richardson (2) (1996)	Winnipeg	President and Chief Executive Officer, James Richardson & Sons, Limited
Kenneth C. Rowe (2) (1985)	Halifax	Chairman and Chief Executive Officer, I.M.P. Group International Inc.
Guy Saint-Pierre (3),(4) (1990)	Montreal	Chairman of the Board, Royal Bank of Canada
Cecil W. Sewell, Jr. (2001)	Raleigh, North Carolina	Chairman Emeritus, RBC Centura Banks, Inc.
Kathleen P. Taylor (1) (2001)	Toronto	President, Worldwide Business Operations, Four Seasons Hotels Inc.
Victor L. Young (1) (1991)	St. John's	Company Director

(1) Audit Committee,
(2) Conduct Review and Risk Policy Committee,
(3) Corporate Governance and Public Policy Committee
(4) Human Resources Committee

Since November 1, 1997, the directors have held the principal occupations described above, except Mr. W. Geoffrey Beattie, who prior to April 1998 was a partner at the law firm of Tory Tory DesLauriers & Binnington; Mr. George A. Cohon, who prior to January 2000 was Senior Chairman and Chairman of the Executive Committee of McDonald's Restaurants of Canada Limited; Mr. Douglas T. Elix, who prior to October 1999 was General Manager, Americas, IBM Global Services, IBM Corporation; Mr. John T. Ferguson, who prior to September 1998 was Chairman and Chief Executive Officer of Princeton Developments Ltd.; Mr. J. Edward Newall, who prior to July 1998 was Vice-Chairman and Chief Executive Officer of NOVA Corporation (which changed its name to NOVA Chemicals Corporation on July 2, 1998); Mr. Gordon M. Nixon, who prior to August 2001 was President and Chief Operating Officer of Royal Bank of Canada, prior to April 2001 was Chief Executive Officer of RBC Dominion Securities Inc., prior to December 1999 was Head, Corporate and Investment Banking of RBC Dominion Securities Inc. and prior to May 1998 was Head, Investment Banking of RBC Dominion Securities Inc.; Mr. David P. O'Brien, who prior to April 2002 was Chairman and Chief Executive Officer of PanCanadian Energy Corporation (which merged with Alberta Energy Company Ltd. in April 2002 to form EnCana Corporation) and prior to October 2001 was Chairman, President and Chief Executive Officer of Canadian Pacific Limited; Ms. Charlotte R. Otto, who prior to July 2000 was Senior Vice-President, Public Affairs of The Procter & Gamble Company; Mr. Robert B. Peterson, who prior to April 2002 was Chairman and Chief Executive Officer of Imperial Oil Limited and prior to January 2002 was Chairman, President and Chief Executive Officer of Imperial Oil Limited; Mr. Hartley T. Richardson, who prior to April 1999 was President of James Richardson & Sons, Limited; Mr. Guy Saint-Pierre, who prior to May 2002 was Chairman of SNC-Lavalin Group Inc.; Mr. Cecil W. Sewell, Jr., who prior to June 2001 was Chief Executive Officer of Centura Banks, Inc. (now RBC Centura Banks, Inc.) and prior to February 2000 held a number of senior executive positions at Centura Banks, Inc.; Ms. Kathleen P. Taylor, who prior to November 1999 was Executive Vice-President and Chief Corporate Officer of Four Seasons Hotels Inc. and prior to April 1998 held a number of senior executive positions at Four Seasons Hotels Inc.; and Mr. Victor L. Young, who prior to October 2001 was Chairman and Chief Executive Officer of Fishery Products International Limited.

Mr. George A. Cohon, Mr. Pedro J. Reinhard, Mr. Kenneth C. Rowe and Ms. Kathleen P. Taylor were directors of other companies which, in the ten years preceding the date of this annual information form and while they were directors of the other companies, became bankrupt, made proposals under legislation relating to bankruptcy or insolvency or were subject to or instituted any proceedings, arrangement or compromise with creditors.

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Executive officers — The following are the executive officers and their municipalities of residence, as at December 10, 2002:

Name	Title	Municipality of Residence
Gordon M. Nixon	President & Chief Executive Officer	Toronto, ON, Canada
Peter W. Currie	Vice-Chairman & Chief Financial Officer	Gormley, ON, Canada
Suzanne B. Labarge	Vice-Chairman & Chief Risk Officer	Toronto, ON, Canada
Martin J. Lippert	Vice-Chairman, RBC Global Services & Chief Information Officer	Mississauga, ON, Canada
W. Reay Mackay	Vice-Chairman, RBC Investments	Toronto, ON, Canada
James T. Rager	Vice-Chairman, RBC Banking	Oakville, ON, Canada
Irving Weiser	Chairman & Chief Executive Officer, RBC Dain Rauscher	Minneapolis, MN, U.S.A.
W. James Westlake	Chairman & Chief Executive Officer, RBC Insurance	Oakville, ON, Canada
Charles M. Winograd	Vice-Chairman, RBC Capital Markets	Toronto, ON, Canada
Elisabetta Bigsby	Senior Executive Vice-President Human Resources & Public Affairs	Toronto, ON, Canada

Since November 1, 1997, the executive officers have been engaged in various capacities in the affairs of the Bank, Royal Trust and their affiliates except I. Weiser, who prior to September 2000 was Chairman, President & Chief Executive Officer, Dain Rauscher Investments, Minnesota, USA.

Ownership of securities — To the knowledge of the bank, the directors and executive officers, as a group, beneficially own or exercise control or direction over less than (1%) of the common and preferred shares of the bank. None of the directors or executive officers of the bank holds shares of its subsidiaries except where required for qualification as a director of a subsidiary.

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PRINCIPAL SUBSIDIARIES

Principal Subsidiaries (1)	Principal office address (2)	Carrying value of voting shares owned by the Bank (3)
Royal Bank Mortgage Corporation (4)	Montreal, Quebec, Canada	898
Royal Trust Corporation of Canada (4)	Toronto, Ontario, Canada	771
The Royal Trust Company	Montreal, Quebec, Canada	469
Royal Mutual Funds Inc.	Toronto, Ontario, Canada	3
RBC Capital Trust	Toronto, Ontario, Canada	506
Connor Clark Ltd.	Toronto, Ontario, Canada	38
RBC Action Direct Inc.	Richmond Hill, Ontario, Canada	135
RBC Alternative Assets, L.P. (2) (6)	New York, New York, U.S.A.	14
RBC Technology Ventures Inc.	Toronto, Ontario, Canada	33
RBC Capital Partners Limited	Toronto, Ontario, Canada	50
Royal Bank Holding Inc.	Toronto, Ontario, Canada	14,670
RBC Insurance Holdings Inc.	Mississauga, Ontario, Canada	
RBC Life Insurance Company	Mississauga, Ontario, Canada	
RBC Dominion Securities Limited (4)	Toronto, Ontario, Canada	
RBC Dominion Securities Inc.	Toronto, Ontario, Canada	
RBC Alternative Assets, Inc. (2) (6)	New York, New York, U.S.A.	
Royal Bank Realty Inc.	Montreal, Quebec, Canada	
R.B.C. Holdings (Bahamas) Ltd.	Nassau, Bahamas	
Royal Bank of Canada Reinsurance (Cayman) Limited	George Town, Grand Cayman	
Royal Bank of Canada Insurance Company Ltd.	St. Michael, Barbados	
Finance Corporation of Bahamas Limited	Nassau, Bahamas	
Investment Holdings (Cayman) Limited	George Town, Grand Cayman	
Royal Bank of Canada (Barbados) Limited	St. Michael, Barbados	
Royal Bank of Canada (Caribbean) Corporation	St. Michael, Barbados	
RBC Holdings (USA) Inc.	New York, New York, U.S.A.	
RBC Dain Rauscher Corp. (2)	Minneapolis, Minnesota, U.S.A.	
RBC Dominion Securities Corporation	New York, New York, U.S.A.	
RBC Insurance Holding (USA) Inc. (2)	Wilmington, Delaware, U.S.A.	
Liberty Life Insurance Company	Greenville, South Carolina, U.S.A.	
RBC Holdings (Delaware) Inc. (5)	New York, New York, U.S.A.	
Prism Financial Corporation	Chicago, Illinois, U.S.A.	
RBC Mortgage Company	Chicago, Illinois, U.S.A.	
RBC Centura Banks, Inc.	Rocky Mount, North Carolina, U.S.A.	3,590
RBC Centura Bank (5)	Rocky Mount, North Carolina, U.S.A.	
RBC Capital Investment Holdings (USA) Inc.	Wilmington, Delaware, U.S.A.	69
Royal Bank of Canada Financial Corporation	St. Michael, Barbados	4
Atlantis Holdings Limited	St. Michael, Barbados	489
RBC Finance B.V.	Amsterdam, Netherlands	2,329
Royal Bank of Canada Holdings (U.K.) Limited	London, England	
Royal Bank of Canada Europe Limited	London, England	
RBC Holdings (Channel Islands) Limited	Guernsey, Channel Islands	
Royal Bank of Canada (Channel Islands) Limited	Guernsey, Channel Islands	
RBC Investment Management (Asia) Limited	Hong Kong, China	5
RBC Global Services Australia Pty Limited	Sydney, New South Wales, Australia	48

(1) The Bank owns 100% of the voting shares of each subsidiary except Finance Corporation of Bahamas Limited (75%).

(2) Each subsidiary is incorporated under the laws of the state or country in which the principal office is situated, except for RBC Alternative Assets Inc., RBC Alternative Assets, L.P., RBC Holdings (USA) Inc., RBC Dain Rauscher Corp. and Prism Financial Corporation, which are incorporated under the laws of the state of Delaware, U.S.
(3) The carrying value (in millions of dollars) of voting shares is stated as the bank's equity in such investments.
(4) The subsidiaries have outstanding non-voting shares of which the bank, directly or indirectly, owns 100%.
(5) RBC Holdings (Delaware) Inc. owns 2.4% of RBC Centura Banks, Inc.
(6) RBC Alternative Assets, Inc. owns 1.1% of RBC Alternative Assets, L.P.

ADDITIONAL INFORMATION

Additional information, including directors and officers' remuneration and indebtedness, principal holders of securities, options to purchase securities, and interests of insiders in material transactions is contained in the bank's information circular for its most recent annual meeting of shareholders. Additional financial information is provided in the bank's comparative financial statements for the year ended October 31, 2002.

The bank will provide to any person, upon request to the Senior Vice-President, Investor Relations at 123 Front St. West, 6th Floor, Toronto, Ontario, M5J 2M2 (416-955-7802), a copy of this annual information form and any documents incorporated by reference, a copy of the comparative financial statements for the year ended October 31, 2002 together with the accompanying report of the auditors, a copy of any interim financial statements subsequent to the financial statements for the year ended October 31, 2002, a copy of the information circular in respect of its most recent annual meeting of shareholders and a copy of any other documents incorporated by reference in a preliminary short form prospectus or short form prospectus if securities of the bank are in the course of a distribution.

TRADE-MARKS

Trade-marks used in this report include the LION & GLOBE Symbol, ROYAL BANK OF CANADA, RBC, RBC FINANCIAL GROUP, RBC BANKING, RBC ROYAL BANK, RBC INVESTMENTS, RBC INSURANCE, RBC CAPITAL MARKETS, RBC GLOBAL SERVICES, RBC BUILDER FINANCE, RBC CENTURA, RBC DAIN RAUSCHER, RBC LIBERTY INSURANCE, RBC MORTGAGE, RBC ACTION DIRECT, RBC CAPITAL TRUST, RBC FUNDS, RBC GLOBAL ASSET MANAGEMENT, RBC INVESTMENTS FINANCIAL PLANNING, RBC PRIVATE COUNSEL, ROYAL TRUST and FX DIRECT which are trade-marks of Royal Bank of Canada used by Royal Bank of Canada and/or its subsidiaries. All other trademarks mentioned in this report are the property of their respective holders.

Financial review

U.S. GAAP

Caution regarding forward-looking statements

From time to time, we make 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 our objectives for 2003, and the medium and long terms, and strategies to achieve those objectives, as well as statements with respect to our 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. We caution 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 we conduct operations; the strength of the United States economy and the economies of other nations in which we conduct 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 we operate; inflation; capital market and currency market fluctuations; the timely development and introduction of new products and services 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; our ability to complete strategic acquisitions and to integrate acquisitions; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and saving habits; the possible impact on our businesses of international conflicts and other developments including those relating to the war on terrorism; and our anticipation of and success in managing the risks implicated by the foregoing.

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

Management's discussion and analysis

We evaluate our performance on a reported basis (i.e., as reported in our consolidated financial statements prepared in accordance with United States generally accepted accounting principles (GAAP)) as well as on a core basis (i.e., excluding special items). We view special items as transactions that are not part of normal day-to-day business operations or are unusual in nature, thereby obscuring or distorting our analysis of trends. The special items in 2001, shown in Table 6 on page 27, 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 enactments of tax rate reductions. There were no special items in 2002. Certain earnings measures, such as core earnings, do not have a standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Our recent U.S. acquisitions include RBC Centura Banks, Inc. (now includes Eagle Bancshares, Inc., RBC Mortgage and what was previously Security First Network Bank (SFNB)), RBC Liberty Insurance and RBC Dain Rauscher (includes Tucker Anthony Sutro Corporation). We present information on a core basis because some investors may also find it useful in evaluating financial performance and analyzing trends in our businesses.

The analysis and discussion that follows on pages 22 to 66 contains comparisons to 2001 that are generally based on the 2001 core numbers (i.e., excluding special items shown on page 27). The consolidated financial statements prepared in accordance with U.S. GAAP are on pages 67 to 96.

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

Overview

TABLE 1 Net income

(C$ millions, except percentage amounts)	% change	2002	2001
Net income (1)	19%	**$ 2,898**	$ 2,435
Impact of special items (2)		**—**	(204)
Core net income	30%	**$ 2,898**	$ 2,231

(1) Net income includes goodwill amortization expense of $250 million in 2001 (nil in 2002).

(2) Special items are shown in Table 6 on page 27.

TABLE 2 Diluted earnings per share (EPS)

(C$, except percentage amounts)	% change	2002	2001
EPS (1)	16%	**$ 4.12**	$ 3.55
Impact of special items (2)		**—**	(.31)
Core EPS	27%	**$ 4.12**	$ 3.24

(1) EPS includes goodwill amortization expense of $.39 per share in 2001 (nil in 2002).

(2) Special items are shown in Table 6 on page 27.

As shown in the tables above, full year net income increased $463 million or 19% (16% on a per share basis). Excluding special items of $204 million ($.31 per share) in 2001 detailed on page 27, full year net income was up $667 million or 30% and EPS were up 27%. Excluding special items and goodwill amortization expenses of $250 million in 2001, net income was up $417 million or 17% and EPS were up $.49 or 13% in 2002 compared to 2001. This $417 million growth was largely driven by a $153 million increase in net income from recent U.S. acquisitions (excluding goodwill amortization expenses in 2001), cost savings of approximately $200 million after-tax from operations other than our recent U.S. acquisitions and lower provisions for credit losses of approximately $37 million after-tax.

On November 1, 2001, we adopted new accounting standards regarding business combinations under which goodwill is no longer amortized and is instead assessed for impairment at least annually. Accordingly, we did not incur goodwill amortization expense this year, whereas, in 2001, we incurred goodwill amortization expense of $250 million after-tax ($.39 per share).

Net income from our recent U.S. acquisitions was $232 million in 2002, up from $(80) million in 2001 ($(23) million excluding special items), partially reflecting the cessation of goodwill amortization this year, which accounted for $102 million of the net income improvement. Excluding special items and goodwill amortization expenses, recent U.S. acquisitions resulted in an increase in net income of $153 million, largely reflecting the acquisition of Centura Banks, Inc. on June 5, 2001, which contributed seven more months of earnings in 2002 compared to 2001, synergies achieved from the integration of Tucker Anthony Sutro (acquired on October 31, 2001) into RBC Dain Rauscher, and stronger performance from RBC Dain Rauscher's fixed income business.

The lower growth rate in EPS than in net income reflected 32 million additional average common shares outstanding in 2002 as compared to last year. This largely reflects the issuance of common shares in last year's third quarter in connection with the share exchange for the acquisition of Centura Banks, partially offset by share repurchases during 2002.

As shown in Table 3 below, in 2002, U.S. and Other International revenues were $5.9 billion or 37% of total revenues, up from $4.2 billion or 29% in 2001. Recent U.S. acquisitions resulted in U.S. revenues increasing to $4.4 billion or 28% of total revenues, from $2.9 billion or 20% in 2001.

Total U.S. net income improved to $210 million from $(138) million in 2001 ($(81) million excluding special items), despite higher provisions for credit losses this year, largely for the reasons described above.

TABLE 3 Earnings by geographic segment

	2002				2001			
(C$ millions, taxable equivalent basis)	**Canada**	**United States**	**Other International**	**Total**	**Canada**	**United States**	**Other International**	**Total**
Net interest income	**$ 5,550**	**$ 1,262**	**$ 379**	**$ 7,191**	$ 5,595	$ 485	$ 449	$ 6,529
Non-interest revenue	**4,318**	**3,125**	**1,136**	**8,579**	4,862	2,404	889	8,155
Gross revenues	**9,868**	**4,387**	**1,515**	**15,770**	10,457	2,889	1,338	14,684
Provision for credit losses	**529**	**440**	**96**	**1,065**	757	379	(17)	1,119
Non-interest expense	**5,747**	**3,670**	**827**	**10,244**	6,214	2,712	715	9,641
Income taxes (1)	**1,442**	**67**	**54**	**1,563**	1,529	(64)	24	1,489
Net income	**$ 2,150**	**$ 210**	**$ 538**	**$ 2,898**	$ 1,957	$ (138)	$ 616	$ 2,435
Core net income (2)	**$ 2,150**	**$ 210**	**$ 538**	**$ 2,898**	$ 1,696	$ (81)	$ 616	$ 2,231

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

(2) Excludes special items in 2001, which are described in Table 6 on page 27. There were no special items in 2002.

Outlook

We are targeting growth in diluted earnings per share of 10—15% and a return on common equity of 17—19% in fiscal 2003 based on the expectations that our cost management efforts will allow expenses to grow at a lower rate than revenues and that capital market activity will pick up somewhat in 2003.

Financial priorities

Revenue growth and diversification

In 2002, revenues increased 7%, primarily reflecting recent U.S. acquisitions. Operating, or core, revenues (i.e., excluding special items in 2001) increased 11%, also primarily reflecting recent U.S. acquisitions, and were higher than our objective of core revenue growth of 7—10%. Excluding recent U.S. acquisitions, operating revenues were flat. Detailed discussion follows on pages 38 to 41.

Cost control

Non-interest expense increased 6% and operating non-interest expense (which excludes special items, the costs of Stock Appreciation Rights (SARs) and retention compensation associated with acquisitions) increased 8%, reflecting recent U.S. acquisitions. Operating expenses excluding recent U.S. acquisitions were down 5%. A full description is provided on pages 42 to 44.

Strong credit quality

Provisions for credit losses and non accrual loans declined this year despite further deterioration in the telecommunication sector. The allocated specific provision for credit losses ratio was .50% (.48% net of effect of credit derivatives) in 2002 compared to .52% in 2001, while the non accrual loans ratio was 1.27% versus 1.36% in 2001. During the year, net charge-offs were .71% of average loans and acceptances compared to .55% in 2001. Detailed discussion and tables are provided on pages 45 to 52.

Balance sheet and capital management

Total assets were $382 billion at October 31, 2002, up $19.5 billion or 5% from October 31, 2001. At October 31, 2002, using Superintendent of Financial Institutions Canada (OSFI) guidelines and Canadian GAAP financial information, our Tier 1 capital ratio was 9.3% versus 8.7% at October 31, 2001, while the Total capital ratio was 12.7% versus 11.8% at October 31, 2001. Both ratios were above our medium-term (3—5 year) capital goals of 8% for Tier 1 capital and 11—12% for Total capital. More details are provided on pages 58 to 60.

Factors that may affect future results

There are numerous factors, many beyond our control, that could cause results to differ significantly from our expectations. Some of these factors are described below. Other factors, including credit, market, liquidity, insurance, operational and other risks are described in the Risk management section beginning on page 53.

By their very nature, and as noted in the “Caution regarding forward-looking statements” on page 21, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on such statements in this management discussion and analysis as a number of important factors could cause actual results to differ materially from the plans, objectives, goals, targets, expectations, estimates and intentions expressed in such forward-looking statements.

Industry and non-company factors

As an integrated financial services company conducting business in Canada, the United States and other countries, our revenues and earnings are affected by the health of the economic, business and capital markets environments specific to the geographic regions in which we conduct business.

Factors such as interest rates, inflation, exchange rates, consumer spending, business investment, government spending, the health of the capital markets and terrorism impact the business and economic environment and, ultimately, the amount of business we conduct in a specific geographic region. For example, in an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and consumer spending, the demand for our loan and other products would be adversely affected and the provision for credit losses would likely increase, resulting in lower earnings. Similarly, a continuation or worsening of the current prolonged downturn in the equity markets could cause a further reduction in new issue and investor trading activity, assets under management (AUM) and assets under administration (AUA), resulting in lower fee, commission and other revenues.

Our earnings are affected by the monetary policies of the Bank of Canada and the Board of Governors of the Federal Reserve System in the United States.

Changes in the supply of money and the level of interest rates can impact our profitability. A decline in interest rates would result in a decrease in the net interest income earned on our non-trading portfolio and an increase in the value of our long principal positions of securities subject to interest rate risk. Conversely, an increase in interest rates would result in an increase in the net interest income earned on our non-trading portfolio and a decrease in the value of our long principal positions of securities subject to interest rate risk. For a more complete discussion of interest rate risk and its potential impact on our non-trading portfolio, please refer to the discussion of asset/liability management activities in our non-trading portfolio on page 61. For a more complete discussion of interest rate risk and its potential impact on the value of principal position of securities subject to interest rate risk, please refer to the discussion of trading activities on page 55.

Our performance can be influenced by the degree of competition in the markets in which we operate.

The competition for clients among financial services companies in the consumer and business markets in which we operate is intense. Customer loyalty and retention can be influenced by a number of factors, including relative service levels, the prices of products or services and changes in the attributes of a product or service. Customer loyalty and retention can also be compromised as a result of the client being “cross sold” by a competitor firm. Non-financial companies can provide consumers with the option to pay bills and transfer funds without involving banks. Such disintermediation could reduce fee revenues.

Changes in the statutes, regulations and regulatory policies that govern activities in our various business lines could impact our results.

Regulations are in place to protect the financial and other interests of our clients. Changes to statutes, regulations or regulatory policies, including changes in the interpretation or implementation of statutes, regulations or regulatory policies, could affect us by increasing the ability of competitors to compete with the products and services we provide. In addition, our failure to comply with applicable statutes, regulations or regulatory policies could result in sanctions and financial penalties by regulatory agencies that could adversely impact our reputation and earnings.

Although we take reasonable measures to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which we conduct business, there is no assurance that we will always be in compliance or deemed to be in compliance. Accordingly, it is possible that we could receive a judicial or regulatory body judgment that results in fines, damages and other costs that would have a negative impact on our earnings.

Company specific factors

Our financial performance will be influenced by our ability to execute our U.S. expansion and integration strategy.

The first phase of our U.S. expansion strategy entailed putting together the original building blocks by acquiring businesses largely in the personal and commercial banking, insurance and wealth management areas. The second phase entails building scale by adding to these original building blocks through additional strategic acquisitions, increasing revenues through greater market penetration, new product and service offerings, heightened marketing and sales initiatives and through more client referrals between the companies operating in our different business lines. The second phase also entails achieving cost synergies through the integration of the back office and head office functions of our business units. Although we regularly explore opportunities for strategic acquisitions of companies in our lines of business, there is no assurance that we will be able to continue to complete acquisitions on terms and conditions that satisfy our investment criteria. Further, although results to date have met or exceeded our targets, there is no assurance we will continue to achieve anticipated cost synergies from the integration of acquired companies. Our performance is contingent on retaining the clients and key employees of acquired companies, although there can be no assurance that we will always succeed in doing so.

Our business depends on attracting and retaining key employees.

Our success as an integrated financial services company depends to a large extent on our ability to attract and retain key employees. The competition for talented people in the financial services sector is intense. There is no assurance that we will be able to continue to attract and retain key employees, although our policies and practices are geared towards doing so and attrition at the management level is low.

Other factors

Other factors that may affect future results include changes in trade policy, the timely development and introduction of new products and services in receptive markets, changes in tax laws, technological changes, unexpected judicial or regulatory proceedings, unexpected changes in consumer spending and saving habits, the possible impact on our businesses of international conflicts and other developments including those relating to the war on terrorism, and our anticipation of and success in managing the risks implicated by the foregoing.

We caution that the foregoing discussion of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to Royal Bank of Canada, investors and others should carefully consider the foregoing factors, other uncertainties and potential events, and other external and company specific factors that may adversely impact future results and the market valuation placed on our common shares. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by Royal Bank of Canada, or on our behalf.

Critical accounting policies

Our significant accounting policies are outlined in Note 1 on pages 72 to 75. Certain of these policies require us to make estimates or assumptions that in some cases may relate to matters that are inherently uncertain. These policies include determining the allowance for credit losses, reporting the fair value of certain financial instruments, accounting for securitizations, determining the cost and obligations associated with pensions and postretirement benefits, and valuing goodwill and other intangibles.

Allowance for credit losses

The allowance for credit losses reflects management's estimate of probable losses in our loan and off-balance sheet portfolios at the balance sheet date. We determine and maintain an allowance based on a comprehensive and systematic review of our lending and off-balance sheet portfolios. As mentioned in Note 1 on page 73, our evaluation focuses on identifying and evaluating problem accounts and estimating probable losses that may exist on the remaining portfolio.

Allocated specific allowances are maintained to absorb losses on both specifically identified borrowers and other more homogeneous loans that have been recognized as non accrual. The losses relating to identified large business and government debtors are estimated based on the present value of expected payments on an account-by-account basis. Management's judgment is required when forecasting the amount and timing of expected payments. The losses relating to other portfolio-type products, excluding credit cards, are based on historical net charge-off experience. This amount represents the average percentage lost on non accrual balances and is based on past history and management's judgment.

The allocated general allowance represents the best estimate of probable losses within the portfolio that have not been specifically identified as non accrual. Estimates of portfolio losses are largely dependent on portfolio quality and economic conditions. In addition to the statistical analysis performed, management's judgment is required in determining the following inputs into the models employed:

- Expected default frequency

- Loss severity
- Charge-off trends
- Economic conditions, including duration of current cycle

We determine and hold an unallocated allowance, which explicitly reflects the subjective and judgmental elements involved in our determination of credit risk and the resulting loss estimates. In determining this allowance, management considers general economic and business conditions, regulatory requirements, recent loan loss experience and trends in credit quality and concentration.

The use of different estimates or assumptions in determining the allowance for credit losses may produce significantly different provisions for credit losses and financial results.

U.S. GAAP Royal Bank of Canada

Fair value of financial instruments

We hold financial assets and liabilities, which are carried at fair value. These financial instruments comprise assets and liabilities held in our trading portfolio, securities that are available for sale and derivative financial instruments. Fair value for a majority of financial instruments in our portfolios is determined based on quoted market prices and provides the best evidence of value since it is the result of two willing parties transacting in an open market. Note 21 on pages 95 and 96 contains disclosure regarding the estimated fair value of financial instruments.

If quoted market prices are not available for certain assets or liabilities, we use financial valuation models to determine their fair value. A provision is made in situations where we believe there is the potential the amount realized on sale will be less than the estimated fair value due to insufficient liquidity over a short period of time. We also maintain a provision for model risk, which may occur when the estimated value does not reflect the true value under certain stress market conditions. All significant financial valuation models are vetted by our risk management function, which is not involved in trading the assets and liabilities and is able to provide an independent perspective. Our internal financial valuation models for accounting are strictly controlled and regularly recalibrated, and require the approval of our risk management function. The assumptions used in the financial models are subject to management's judgment, and different assumptions may produce significantly different fair values and financial results.

As outlined in Note 1 on page 72, changes in the fair value of trading account assets and liabilities are recognized in earnings. Changes in the value of available for sale securities are recognized in other comprehensive income, which is a component of shareholders' equity. Write downs to reflect other than temporary impairment are recognized in earnings. We regularly assess whether other than temporary impairment exists.

For derivative financial instruments, we determine fair value using various methodologies including quoted market prices, prevailing market values for similar instruments, and net present value of future cash flows and other pricing models. In determining the assumptions used in our pricing and valuation models, where appropriate, we look to external market inputs including factors such as interest rate yield curves, currency rates and price and rate volatilities for options and other derivatives. The use of methodologies, models and assumptions in pricing and valuing derivatives is subjective and requires management's judgment. The use of different methodologies, models and assumptions may result in significantly different fair values and financial results.

Securitizations

Securitization is a process by which we sell loans or other financial assets to a special purpose entity (SPE), which funds the purchase by issuing securities to investors. The return to investors is derived from the cash flows of the loans or other financial assets purchased by the SPE. Details of our securitization activities are contained in Note 7 on pages 81 and 82. A discussion of our involvements with SPEs can be found on pages 64 and 65.

The calculation of the gain or loss on our securitization transactions involves the use of estimates and assumptions including expected credit losses, payment rates, discount rates and estimated future excess spread. The use of different estimates and assumptions may produce significantly different results reported in earnings.

Pensions and postretirement benefits

We offer various pension plans and postretirement benefit plans to our employees. Note 15 on page 88 contains accounting disclosure concerning our obligations with respect to these plans. The determination of obligations under our pension and other post retirement plans and related expense requires the use of actuarial valuation methods and assumptions. Assumptions typically used in determining these amounts include, as applicable, mortality rates, rate of employee turnover, future claims costs, discount rates, future salary and benefit levels, return on plan assets and future medical costs. The fair value of plan assets is determined using market values or approximations of market values for assets where market values are not readily available. Actuarial valuations and the determination of certain market value approximations are subject to management judgment and, as a result, the prepaid benefit asset (obligation) and pension and postretirement expense may differ significantly if different assumptions are used.

Goodwill and other intangibles

As outlined in Note 4 on page 78, we adopted the Statement of Financial Accounting Standard, *Goodwill and Other Intangibles Assets* (FAS 142). Under this accounting standard, goodwill is no longer amortized but is tested at least annually for impairment at the reporting unit level. Impairment is determined by comparing the fair value of a reporting unit to its carrying value. The fair value of a reporting unit and assets and liabilities within a reporting unit may be determined using a number of market valuation methods including quoted market prices, discounted cash flows and net realizable values. Inherent in each of these valuation techniques is the use of assumptions and estimates. Both the valuation method and the assumptions and estimates used therein are based on management's judgment. The use of different judgments and estimates may produce significantly different results in applying the goodwill impairment test.

Economic Profit

In addition to using traditional measures of financial performance such as net income, EPS and return on common equity (ROE), we also evaluate our performance based on the amount of Economic Profit earned. 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 our proxy for the after-tax return required by shareholders for the use of their capital, to the amount of average common equity, commonly referred to as Economic Capital (EC). The estimated cost of equity is reviewed annually. As the result of a decline in longer-term bond yields since the last review, the cost of common equity was reset mid-year to 11.5% from 12.5%. The average cost of common equity in 2002 was 12%.

Economic Profit does not have any standardized meaning prescribed by GAAP, and therefore the Economic Profit information that we provide is unlikely to be comparable to similar measures presented by other companies. We present information on an Economic Profit basis as it is used by our management and because some investors may also find it useful in evaluating our financial performance and analyzing trends in our businesses.

To create shareholder value from an Economic Profit point of view, 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 the change in value created for shareholders over time, and we believe it is an effective planning tool to focus attention on shareholder value growth opportunities. In order to maximize Economic Profit, one must seek 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

We believe that 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 from weaker to stronger performing businesses.

As shown in Table 4 below, we had record Economic Profit of $838 million in 2002, up from $583 million in 2001. This increase is the result of cash operating earnings growing at a faster rate than the capital charge. The Economic Profit amounts for the business segments in 2002 and 2001 are shown in the tables on pages 28, 30, 32, 34 and 36.

TABLE 4 Economic Profit (1)

(C$ millions, except percentage amounts)	2002	2001	2000	1999	1998
Net income available to common shareholders	**$ 2,800**	$ 2,300	$ 2,074	$ 1,568	$ 1,627
Adjustment for special items (after-tax)	**—**	(204)	—	88	17
Adjustment for amortization of goodwill and other intangibles (after-tax)	**64**	286	88	67	66
Cash operating earnings	**2,864**	2,382	2,162	1,723	1,710
Capital charge	**(2,026)**	(1,799)	(1,448)	(1,386)	(1,249)
Economic Profit (1)	**$ 838**	$ 583	$ 714	$ 337	$ 461
Economic Profit growth	**44%**	(18)%	112%	(27)%	23%
Average common equity	**$16,880**	$13,899	$10,725	$10,268	$ 9,255
Cost of common equity (2)	**12.0%**	12.9%	13.5%	13.5%	13.5%

(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.

(2) Average for the year.

Line of business results

Overview

Table 5 on page 27 shows our results by business segment in 2002. Our 2001 results include several special items, shown in Table 6 and described below. There were no special items in 2002.

Special items increased net income by $204 million in 2001. There were three items that increased non-interest revenues — an $89 million

gain on the formation of the Moneris Solutions merchant card processing joint venture with Bank of Montreal, a $43 million gain on the sale of the Group Retirement Services group pension benefits administration business and a $313 million gain on the sale of RT Capital Management's institutional money management business. Non-interest expense increased due to 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 reductions in tax rates.

We attribute common equity to our business segments based on an assessment of their credit, market, operational and other risks. Common equity in the Other segment includes equity attributed to specific functional units that are reported in Other, as well as any differences between our total common equity and common equity attributed to our businesses or our functional units. We implemented a number of changes to refine our capital attribution methodologies in early 2002, resulting in higher common equity being attributed to RBC Capital Markets and RBC Investments and lower common equity to RBC Banking and RBC Insurance compared to a year ago. However, the inclusion of a full year of operations of RBC Centura Bank in 2002, as compared to 2001, resulted in more common equity being attributed to RBC Banking. The amount of common equity attributed to the Other segment increased in 2002, largely as the result of internal capital generation outstripping the need to attribute additional common equity to the other five segments, based on an assessment of their risk profiles. Our attribution of capital to the business segments involves various assumptions and judgments.

RBC Banking produced an ROE of 19.2% and generated 53% of our net income in 2002. Net income increased 32% from 2001 and core net income (net income excluding the special items in Table 6) increased $276 million or 22%, as discussed on page 28. This improvement partially reflected higher core earnings from U.S. acquisitions (which include RBC Centura acquired on June 5, 2001, and RBC Mortgage), which rose to $206 million from $21 million ($73 million excluding goodwill amortization expense) a year ago.

RBC Insurance produced an ROE of 25.7% and generated 7% of our net income in 2002. Net income increased 10% from 2001, as discussed on page 30. RBC Liberty Insurance (acquired on November 1, 2000) contributed net income of $23 million in 2002 compared to $29 million ($39 million excluding goodwill amortization expense) in 2001.

RBC Investments produced an ROE of 11.1% and generated 12% of our net income in 2002. Net income declined by 32% while core net income increased $112 million or 48%, as discussed on page 32.

RBC Dain Rauscher (acquired on January 10, 2001) made a profit of $3 million in 2002 compared to a loss of $73 million ($(33) million excluding goodwill amortization) last year.

RBC Capital Markets produced an ROE of 10.5% and generated 15% of our net income in 2002. Net income increased 26% and core net income increased 17%, as discussed on page 34.

RBC Global Services produced an ROE of 28.7% and generated 6% of our net income in 2002. Net income declined by 35% while core net income declined by 8%, as discussed on page 36.

The Other segment produced an ROE of 25.0% and generated 7% of our net income in 2002. Its 2001 results are shown in Note 3 on page 77. The ineffectiveness arising from certain derivatives used as cash flow hedges, in accordance with Statement of Financial Accounting Standards, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133), and gains from the securitization of mortgages contributed to the growth in earnings.

TABLE 5 Results by business segment

	2002							2001	
(C$ millions, taxable equivalent basis, except per share and percentage amounts)	**RBC Banking**	**RBC Insurance**	**RBC Investments**	**RBC Capital Markets**	**RBC Global Services**	**Other (1)**	**Total**	**Core**	**Reported**
Net interest income	**$5,576**	**$ 223**	**$ 371**	**$ 553**	**$ 136**	**$ 332**	**$ 7,191**	$ 6,529	$ 6,529
Non-interest revenue	**2,090**	**357**	**3,276**	**2,142**	**672**	**42**	**8,579**	7,710	8,155
Gross revenues	**7,666**	**580**	**3,647**	**2,695**	**808**	**374**	**15,770**	14,239	14,684
Provision for credit losses	**626**	**—**	**(1)**	**465**	**10**	**(35)**	**1,065**	1,119	1,119
Non-interest expense	**4,520**	**399**	**3,144**	**1,627**	**548**	**6**	**10,244**	9,550	9,641
Income taxes	**947**	**(9)**	**158**	**143**	**77**	**99**	**1,415**	1,200	1,350
Non-controlling interest	**8**	**—**	**—**	**—**	**—**	**100**	**108**	107	107
Taxable equivalent adjustment	**19**	**—**	**—**	**21**	**—**	**—**	**40**	32	32
Net income	**$1,546**	**$ 190**	**$ 346**	**$ 439**	**$ 173**	**$ 204**	**$ 2,898**	$ 2,231	$ 2,435
Net income									
As a % of total	**53%**	**7%**	**12%**	**15%**	**6%**	**7%**	**100%**	100%	100%
% growth over prior year	**32%**	**10%**	**(32)%**	**26%**	**(35)%**	**n.m.**	**19%**		10%
% core growth over prior year	**22%**	**10%**	**48%**	**17%**	**(8)%**	**n.m.**	**30%**	1%	
Return on common equity	**19.2%**	**25.7%**	**11.1%**	**10.5%**	**28.7%**	**25.0%**	**16.6%**	15.1%	16.6%
Economic Profit (2)	**$ 614**	**$ 100**	**$ (14)**	**$ (55)**	**$ 100**	**$ 93**	**$ 838**	$ 583	$ 583
Diluted EPS							**$ 4.12**	$ 3.24	$ 3.55

(1) Represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

(2) 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.

n.m. not meaningful

TABLE 6 Special items affecting business segment results in 2001 (1)

(C$ millions, taxable equivalent basis, except per share amounts)	**RBC Banking**	**RBC Insurance**	**RBC Investments**	**RBC Capital Markets**	**RBC Global Services**	**Other (2)**	**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
	7	—	349	—	89	—	445
Non-interest expense							
U.S. retail banking restructuring charge	91	—	—	—	—	—	91
Total impact (pre-tax)	(84)	—	349	—	89	—	354
Income taxes							
On items listed above	(33)	—	70	—	12	—	49
Enactment of change in tax rates	45	—	5	27	—	24	101
Total impact (after-tax)	$ (96)	$ —	$ 274	$ (27)	$ 77	$ (24)	$ 204
Impact on diluted EPS							$ .31

(1) There were no special items in the RBC Insurance segment in 2001. No special items at all in 2002.

(2) Represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

RBC Banking

Business profile

RBC Banking serves over 11 million individuals, small and medium-sized businesses, and mid-market 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, accredited financial planners, mobile sales representatives, automated banking machines, and telephone and Internet banking channels. We deliver a wide range of financial services including deposit accounts, investments and mutual funds, financial planning and advice, credit and debit cards, business and personal loans, and residential and commercial mortgages.

Industry profile

In Canada, personal and commercial banking is a mature industry dominated by the five largest Canadian banks, although competition is fierce and niche players are increasing their presence in select businesses such as credit cards. The U.S. market is more fragmented, although many regional markets are highly competitive. Many banks have expanded their focus to include offering investment products and financial advice and planning to affluent and other targeted clients. Critical success factors, in our opinion, include providing a differentiated client experience and maintaining rigorous credit and operational risk management practices and expense control.

Our strengths

- Customer relationship management (CRM) combined with strong client contact capabilities and specialized sales forces
- Established Canadian retail banking brand
- Comprehensive product, service and physical and alternative distribution capabilities compared to niche players
- Highest client household penetration ratio in personal segments, and lead product market share in business markets among Canadian banks
- Among the strongest efficiency ratios of the Big 5 Canadian banks
- Acquisition integration capabilities in the U.S. market

Our strategy

Our vision is to grow profitable relationships with each one of our business and personal clients by creating a tailored client experience for our clients across North America, while reducing costs, and effectively managing risk and capital.

We plan to achieve our vision through the following strategic priorities:

- Ensure strong revenue growth in Canada by maximizing client retention, deepening client relationships, capturing intergenerational wealth transfer opportunities and building on our financial planning and advice capabilities
- Create a differentiated customer experience, providing a valued and superior level of service tailored to customer segment needs that builds customer loyalty and clearly differentiates us from the competition
- Accelerate U.S. revenue and earnings growth by expanding our footprint in the southeastern U.S. and building a scalable platform
- Reinforce cost management and risk mitigation through effective use of technology, strengthened low cost delivery capabilities, and rigorous management of credit, operational, regulatory and compliance risk
- Cross-platform leverage by increasing referrals and cost efficiencies across RBC in Canada and the U.S.

Outlook for 2003

Based on our expectation of rising interest rates in Canada in 2003, we anticipate that the spread compression on deposits will ease. This, combined with reasonable loan growth, should have positive implications for revenue growth in our Canadian business. In the U.S., we anticipate branch openings and the acquisitions of Eagle Bancshares in July 2002 and of Admiralty Bancorp, Inc. (expected to close in January 2003) to have a positive impact on revenues. We also expect that the realization of a full year of cost synergies from the Eagle Bancshares acquisition will contribute to net income growth at RBC Centura. Overall, we expect solid earnings growth for this segment based on our continued focus on cost containment and credit and operational risk management and the benefits of a recovering economy.

Financial performance

Net income was up 32% from last year while core net income was up $276 million or 22%. Earnings from the segment's U.S. acquisitions rose to $206 million in 2002 from $(36) million last year or $21 million excluding costs related to U.S. retail bank restructuring in 2001 ($73 million further excluding goodwill amortization expense in 2001). The higher U.S. earnings reflected the acquisition of Centura Banks on June 5, 2001, integration cost savings and revenue growth. Core net income excluding U.S. acquisitions grew 7% due to continued cost management initiatives. Core ROE increased to 19.2% in 2002 from 18.3% despite higher average common equity attributed to this segment due to U.S. acquisitions and additional business activity.

Revenues increased $444 million or 6% from 2001, reflecting the contribution of RBC Centura (including RBC Mortgage) and the acquisition of Eagle Bancshares, which was completed on July 22, 2002. Revenues from U.S. acquisitions increased $635 million in 2002, without which

the segment's revenues would have decreased 3% due to narrower net interest margins and lower lending volumes.

Non-interest expense increased $132 million or 3% from last year, while the efficiency ratio declined 180 basis points, as revenues grew faster than expenses. Core non-interest expense (which excludes $91 million of costs related to U.S. retail bank restructuring in 2001) increased $223 million or 5%. U.S. acquisitions contributed $330 million of the core expense growth. Excluding U.S. acquisitions, core expenses fell 3%, reflecting ongoing cost management.

The total provision for credit losses fell 14% from last year, largely in the commercial loan portfolio. Non accrual loans decreased by $144 million or 11%, reflecting improvements in both the Canadian consumer and Canadian commercial loan portfolios.

Results

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2002	2001
Net interest income	4%	**$ 5,576**	$ 5,349
Non-interest revenue	12	**2,090**	1,873
Gross revenues	6	**7,666**	7,222
Provision for credit losses			
Allocated specific	(5)	**626**	662
Allocated general and unallocated	n.m.	**—**	70
Total	(14)	**626**	732
Non-interest expense (1)	3	**4,520**	4,388
Net income before income taxes	20	**2,520**	2,102
Income taxes	4	**947**	912
Non-controlling interest	(20)	**8**	10
Taxable equivalent adjustment	217	**19**	6
Net income	32	**$ 1,546**	$ 1,174
U.S. net income	n.m.	**$ 206**	$ (36)
Net income as a % of total bank net income	500bp	**53%**	48%
ROE	240bp	**19.2%**	16.8%
Economic Profit	47%	**$ 614**	$ 419
Net interest margin	(18)bp	**3.56%**	3.74%
Efficiency ratio	(180)bp	**59.0%**	60.8%
Operating efficiency ratio (2)	(70)bp	**58.8%**	59.5%
Average assets	9%	**$156,500**	$ 143,000
Average loans and acceptances	7	**144,400**	135,400
Average deposits	10	**122,900**	111,400
Average common equity	16	**7,800**	6,700
Core results (3)			
Gross revenues	6	**7,666**	7,215
Non-interest expense	5	**4,520**	4,297
Net income	22	**1,546**	1,270
U.S. net income	881	**206**	21
ROE	90bp	**19.2%**	18.3%
Credit information			
Non accrual loans	(11)%	**$ 1,157**	$ 1,301
Net charge-offs	3	**744**	724
Net charge-offs as a % of average loans and acceptances	(1)bp	**.52%**	.53%
Number of employees (full-time equivalent)	—	**35,014**	34,845

(1) Includes goodwill amortization expense of $54 million in 2001 (nil in 2002).

(2) Efficiency and operating efficiency ratios are defined on page 104.

(3) Excluding special items in 2001 detailed in Table 6 on page 27. Only the lines affected by special items are shown here.

n.m. not meaningful

Strategy by division

Canada

Operating in Canada under the RBC Royal Bank brand, we serve individuals, small and medium-sized businesses, and commercial clients in all provinces and territories. We offer our clients extensive physical and alternative distribution choices. We continue to strengthen our channel distribution capabilities, including significant reinvestment in our branch network and staff, and in our electronic banking capabilities.

We offer a wide range of financial services and advice, as detailed in our business profile on page 28, and products and expertise in specialized areas such as foreign exchange and venture capital financing. We also provide individual and business clients with a full choice of Visa credit card products, debit cards and other smart card applications. We provide merchants with credit and debit card acceptance services, point-of-sale capabilities and Internet-secure electronic transaction solutions through Moneris Solutions, a joint venture in which we participate equally with Bank of Montreal, managed through RBC Global Services.

Our goal is to grow profitable relationships with each one of our business and personal clients, using our expertise in customer relationship management, sales management and client segmentation. We will drive revenue growth by creating a tailored client experience, leveraging client life events and providing financial planning and advice to broaden client relationships using the full capabilities of RBC.

We will continue to reinforce our cost management focus by leveraging e-enabled technology and cross-platform economies of scale. We will continue to rigorously focus on the management of credit, operational and compliance risk, including fraud management initiatives and strengthened credit-scoring capabilities.

United States

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. RBC Centura also includes RBC Mortgage, a Chicago-based national retail mortgage originator, and RBC Builder Finance, a Houston-based financing division for home builders and developers. RBC Centura's footprint expanded in 2002 with the acquisition of Eagle Bancshares, which operated 14 branches in the Atlanta, Georgia metropolitan area. RBC Centura has also announced a definitive merger agreement with Admiralty Bancorp, which currently operates 10 branches in Florida, expected to close in January 2003.

Our U.S. priorities include:

- Expanding in the southeastern U.S. through targeted acquisitions and a build/buy branch expansion strategy
- Rapidly building a scalable platform to support growth
- Accelerating introduction of sales and marketing initiatives
- Growing national niche lines of business such as builder finance and residential mortgages
- Realizing synergies from functional integration and cross-selling opportunities across RBC's entire platform

Financial highlights by division

Revenues from the domestic business decreased $201 million or 3% from 2001, primarily due to continued spread compression on core deposits and lower personal and business lending volumes. These decreases more than offset higher residential mortgage and deposit balances and wider net interest margin earned on mortgages and credit cards. Mortgage balances increased as the low interest rate environment encouraged home purchases. Deposit balances grew while lending volumes declined, reflecting consumer and business uncertainty regarding the economy and capital markets.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	(3)%	**$ 6,109**	$ 6,310
Average residential mortgages	5	**68,200**	64,800
Average personal loans	(4)	**23,600**	24,500
Average personal deposits	2	**74,400**	72,900
Average business loans and acceptances	(5)	**34,100**	36,000
Average business deposits	9	**30,500**	28,100
Average card balances	3	**6,200**	6,000
Card spending volumes	2	**26,700**	26,300
Number of:			
Employees (full-time equivalent)	1	**29,716**	29,554
Automated banking machines	(2)	**4,151**	4,236
Branches	(1)	**1,117**	1,125
Online clients	23	**2,311,915**	1,876,358

Revenues increased $635 million due mainly to a full year of RBC Centura results in 2002 compared to 5 months in 2001, as well as the contribution of Eagle Bancshares since July 22, 2002. Growth in average balances also largely reflects the inclusion of a full year of RBC

Centura. Strong growth in mortgage originations and volumes at RBC Mortgage reflected high refinance activity resulting from the favourable interest rate environment.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	94%	**$ 1,314**	$ 679
Average residential mortgages	81	**2,900**	1,600
Average personal loans	154	**3,300**	1,300
Average personal deposits	121	**8,600**	3,900
Average business loans and acceptances	126	**8,800**	3,900
Average business deposits	93	**5,400**	2,800
Average card balances	—	**100**	100
Card spending volumes	100	**400**	200
Mortgage originations ($ billions)	50	**33.7**	22.5
Number of:			
Employees (full-time equivalent)	1	**4,181**	4,126
Automated banking machines	7	**275**	258
Branches (1)	1	**245**	242
Online clients	18	**89,434**	75,887

(1) Excludes RBC Mortgage and RBC Builder Finance sales offices of 252 in 2002 and 264 in 2001.

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.

Revenues increased $10 million or 4% from 2001, aided by the sale of property in the Cayman Islands, which accounted for approximately half of the increase.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	4%	**$ 243**	$ 233
Number of:			
Employees (full-time equivalent)	(4)	**1,117**	1,165
Automated banking machines	11	**60**	54
Branches	10	**43**	39

RBC Insurance

Business profile

Operating as RBC Insurance, we provide a wide range of creditor, life, health, travel, home, auto and reinsurance products and services to more than five million clients in Canada, the U.S. and internationally. 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.

Industry profile

The Canadian insurance industry generates almost $60 billion in premiums annually from more than 100 life insurance companies and more than 200 property and casualty insurers. Our U.S. business is focused in the life insurance sector, which is both competitive and fragmented and includes over 1,200 national and regional companies. The international reinsurance industry is dominated by several global players but also includes a number of niche companies.

Across all of our business lines, we are seeing a number of key trends, including consolidation, increased government regulation, shifting distribution opportunities, the convergence of insurance and investment products and increased globalization.

Our strengths

- A diverse set of products designed to meet a wide range of consumer needs
- Multiple distribution channels, which are supported by strong infrastructure and sales expertise
- A strong brand. As part of RBC Financial Group, we have access to a broad range of financial services, distribution channels and client base
- Market leadership in a number of Canadian insurance markets, including travel and individual life insurance

Our strategy

We are focused on growing our insurance organization by offering a wide range of products and services through multiple distribution channels in Canada, as well as in select U.S. and international markets. To accomplish this we will seek to:

- Ensure as many RBC clients as possible have an insurance relationship with RBC Insurance
- Target reinsurance activities that support and enhance the overall profitability of the insurance operations
- Continue to expand in the U.S. by utilizing existing scale and expanding the platform, entering new markets and focusing on cross-platform initiatives across RBC
- Build an integrated North American insurance platform by leveraging cross-border synergies where permitted, including the implementation of common administrative and technology systems

Outlook for 2003

Our expectation of reasonable economic growth in both Canada and the U.S. should have a favourable impact on the insurance business in 2003. Our outlook is for strong revenue growth across our operations, driven by expansion into new markets as discussed in our strategy, and the pending acquisition of the U.S. life insurance operation of Business Men's Assurance Company of America (BMA). The acquisition of BMA is subject to regulatory approvals and other customary closing conditions. We anticipate that cost reductions from the realization of cross-border synergies will also help to drive net income growth.

Financial performance

Net income increased 10% from last year and, excluding goodwill amortization expenses in 2001, was up 1%. Earnings in 2001 were adversely affected by claims resulting from the World Trade Center tragedy. RBC Liberty Insurance contributed $23 million to net income in 2002, down from $29 million ($39 million excluding goodwill amortization) last year. The decline in RBC Liberty Insurance earnings was largely related to higher policy surrenders and lower earnings at its outsourcing divisions. Excluding RBC Liberty Insurance, net income increased 16%, largely reflecting strong growth in the Canadian and reinsurance businesses.

ROE improved to 25.7% from 20.0% in 2001, reflecting higher net income, as well as lower average common equity, which reflected a revised methodology for attributing capital to our insurance operations.

Premiums & deposits were up 12% from last year and revenues were up 7%, due largely to higher revenues from RBC Liberty Insurance. RBC Liberty Insurance reported 13 months of results in 2002 versus 11 months in 2001, as its reporting period was changed from September 30 to October 31 to be consistent with our fiscal year. Excluding these additional months of RBC Liberty Insurance, premiums & deposits grew 8% and revenues were flat.

Expenses grew $24 million or 6%, largely due to the two additional months of RBC Liberty Insurance and an increase in the number of employees, partly offset by the cessation of goodwill amortization this year. Excluding the additional months of RBC Liberty Insurance, expenses fell 2%.

Results

(C$ millions, except percentage amounts)	% change	2002	2001
Premiums & deposits	12%	**$ 2,023**	$ 1,812
Non-interest revenue			
Earned premium	10	**1,564**	1,419
Fee revenue/Other	38	**179**	130
Less: Policy benefits	10	**1,081**	985
Less: Acquisition costs	34	**305**	228
	6	**357**	336
Net interest income	8	**223**	206
Gross revenues	7	**580**	542
Non-interest expense (1)	6	**399**	375
Net income before income taxes	8	**181**	167
Income taxes	n.m.	**(9)**	(6)
Net income	10%	**$ 190**	$ 173
U.S. net income	(10)	**$ 35**	$ 39
Net income as a % of total bank net income	—	**7%**	7%
ROE	570bp	**25.7%**	20.0%
Economic Profit	39%	**$ 100**	$ 72
Average assets	10	**6,900**	6,300
Average common equity	(12)	**700**	800
Number of employees (full-time equivalent)	2%	**2,641**	2,583

(1) Includes goodwill amortization expense of $15 million in 2001 (nil in 2002).

Strategy by division

Financial highlights by division

Life

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

In Canada, life and health insurance products are distributed through a network of more than 7,000 independent brokers, over 550 proprietary insurance representatives and a direct sales unit. In the U.S., Greenville, South Carolina-based Liberty Life Insurance Company provides life and health insurance products through a proprietary sales force of over 600 agents and also offers select products through direct 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.

Premiums & deposits for the life business increased 10% in 2002, partially due to 2 additional months of RBC Liberty Insurance as it reported 13 months of results in 2002 versus 11 months in 2001. Without these additional months, premiums & deposits would have been up 5%, reflecting the continued strength of both the Canadian and reinsurance businesses. Lower investment income due to the low interest rate environment, as well as higher policy surrenders at RBC Liberty Insurance, contributed to the 5% decline in revenues.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Premiums & deposits	10%	**$ 1,529**	$ 1,393
Gross revenues	(5)	**429**	450
Average assets	8	**5,700**	5,300
Number of:			
Life and health policies in force in Canada (thousands)	11	**2,930**	2,645
Life policies in force in the U.S. (thousands)	(11)	**2,325**	2,600
Assets under management in the U.S.	(2)	**367**	375
U.S. sales agents	(4)	**690**	718

Non-life

Our non-life business includes home, auto, travel and property 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 and face-to-face channels. Travel products, which are sold through travel agents, the Internet and bank channels in Canada, include trip cancellation insurance, out-of-country medical and baggage insurance.

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

Our goal is to grow our non-life business by continuing to build our domestic home and auto business, entering new travel insurance markets and effectively managing our property reinsurance portfolio.

Revenues from our non-life business were higher in 2002 due to stronger performance in our property reinsurance and travel businesses as last year's revenues were adversely affected by claims resulting from the World Trade Center tragedy.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Premiums & deposits	14%	**$ 413**	$ 363
Gross revenues	88	**47**	25
Average assets	—	**700**	700
Number of:			
Home and auto — personal lines policies in force (thousands)	37	**93**	68
Travel — coverages (thousands)	(7)	**2,339**	2,510

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, the administration of bank creditor insurance programs and a proprietary sales distribution network.

Our travel and emergency assistance services include co-ordinating the delivery of emergency health, evacuation and transportation services when clients have a travel emergency, while our structured reinsurance business provides solutions to help corporations better manage financial risk.

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.

The substantial growth in premiums & deposits was attributable to structured reinsurance premium increases, which offset slower growth at our outsourcing divisions in the U.S. The increase in revenues reflected the stronger performance in structured reinsurance and the reporting of two additional months of RBC Liberty Insurance. Our career sales force grew substantially in 2002, reflecting increased investment in our proprietary sales distribution network.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Premiums & deposits	45%	**$ 81**	$ 56
Gross revenues	55	**104**	67
Average assets	67	**500**	300
Number of:			
Career sales — agents	22	**554**	455
Assistance services — calls (thousands)	(3)	**681**	699
Policies under administration in the U.S. (thousands)	(6)	**4,100**	4,342

RBC Investments

Business profile

RBC Investments provides full-service and self-directed brokerage, financial planning, investment counseling, personal trust, private banking and investment management products and services primarily to private clients in Canada, the U.S. and internationally. Products and services are delivered through the RBC Royal Bank branch network across Canada, RBC Investments offices, RBC Dain Rauscher branches in the U.S., private banking offices and other locations worldwide. Services are also delivered via the Internet and telephone. In September 2002, we realigned parts of our Canadian distribution channels under a single management structure to enhance the client experience by offering seamless, comprehensive solutions.

Industry profile

Wealth management is a highly competitive business with numerous large and boutique firms serving the affluent and high net worth client. Many of these firms have recently developed strategies focused on attracting the high net worth market. Volatile markets and the rising costs of managing the risks inherent in the business are changing the approach and profitability of some of the players. Consolidation in the mutual fund industry has not significantly altered the competitive landscape as distribution channels continue to be expanded by all players. Self-directed brokerage businesses have come under increased pressure due to reduced transaction volumes in light of market conditions, and clients using non-revenue generating services such as research, quotes and online asset mix calculators.

Our strengths

- Relationship management capabilities from experienced people and technology applications
- Ability to deliver the choice of products and services clients need to meet their financial goals
- Multiple distribution channels for client convenience
- Ability to access entire RBC client base
- Solutions designed for specific investment strategies and client risk tolerance

Our strategy

Our goal is to be a leading provider of personalized, comprehensive investment solutions for private clients worldwide, aligning them with client needs and the markets where we serve them.

In Canada:

- Match distribution channel and type of service to client needs and preferences
- Seek lifelong and intergenerational relationships with clients by offering products and services for each stage of their wealth management needs

In the United States:

- Grow through broadening and deepening relationships with existing clients as well as through targeted acquisitions over time in order to generate greater market share and scale

Internationally:

- Provide specialized global services to clients located around the world
- Offer solutions and provide advice and choice in an increasingly transparent international business

Outlook for 2003

Based on our expectation that investor confidence and capital markets performance will begin improving only by the third quarter of 2003, we expect moderate revenue growth in 2003. Cost containment efforts should help to keep the rate of expense growth below that of revenue growth. Retention compensation costs relating to recent U.S. acquisitions are forecast to be approximately $40 million lower in 2003, further contributing to net income growth.

Financial performance

Net income was down 32% while core net income was up 48%. The growth in core net income was due to higher earnings from RBC Dain Rauscher, as well as the cessation of goodwill amortization this year (goodwill amortization was $110 million in 2001). RBC Dain Rauscher's net income was $3 million in 2002, compared to a loss of $73 million last year ($33 million loss excluding goodwill amortization). The improvement in RBC Dain Rauscher's net income occurred despite higher retention compensation costs and reflected the acquisition of Tucker Anthony Sutro on October 31, 2001 (since integrated into RBC Dain Rauscher) and strong performance from its fixed income division. Excluding RBC Dain Rauscher, core net income would have grown 12%, largely due to the cessation of goodwill amortization in 2002. ROE was largely unchanged from last year, excluding the gain on the sale of RT Capital Management.

Revenues were up 12% from 2001, or 26% excluding special items in 2001. Revenue growth reflected the acquisition of Tucker Anthony Sutro and strong results from the fixed income division of RBC Dain Rauscher. Excluding RBC Dain Rauscher's revenue growth of $875 million, core revenues were down 6% due to weak client trading volumes in 2002.

Expenses increased 25% over a year ago, reflecting the acquisition of Tucker Anthony Sutro and higher retention compensation related to U.S. acquisitions, which increased to $107 million from $88 million in 2001, with $45 million attributable to Tucker Anthony Sutro. RBC Dain Rauscher contributed $774 million of the expense growth in 2002. Excluding RBC Dain Rauscher, expenses fell 9%, reflecting the cessation of goodwill amortization this year, higher expenses in 2001 from a $38 million write down of goodwill relating to Connor Clark, and good expense management.

Results

(C$ millions, except percentage amounts)	% change	2002	2001
Net interest income	(3)%	**$ 371**	$ 384
Non-interest revenue	15	**3,276**	2,859
Gross revenues	12	**3,647**	3,243
Provision for credit losses			
Allocated specific	(150)	**(1)**	2
Total	(150)	**(1)**	2
Non-interest expense (1)	25	**3,144**	2,510
Net income before income taxes	(31)	**504**	731
Income taxes	(29)	**158**	223
Net income	(32)%	**$ 346**	$ 508
U.S. net income	n.m.	**$ (1)**	$ (81)
Net income as a % of total bank net income	(900)bp	**12%**	21%
ROE	(1,590)bp	**11.1%**	27.0%
Economic Profit	(114)%	**$ (14)**	$ 97
Average common equity	67	**3,000**	1,800
Core results (2)			
Gross revenues	26	**3,647**	2,894
Net income	48	**346**	234
ROE	(80)bp	**11.1%**	11.9%
Number of employees (full-time equivalent)	14%	**12,001**	10,512

(1) Includes goodwill amortization expense of $110 million in 2001 (nil in 2002).

(2) Excluding special items in 2001 detailed in Table 6 on page 27. Only the lines affected by special items are shown here.

n.m. not meaningful

Strategy by division

Canada

Financial Planning

The new financial planning platform is operated jointly with RBC Banking. This group serves branch-based clients typically with more than $50,000 in investable assets of which a portion must include mutual funds or managed assets. Financial planning has 1,100 relationship financial planners and 550 commission-based investment and retirement planners who are also financial planners and licensed mutual fund salespeople.

Canadian & International Brokerage group

This group includes our private client division (full-service brokerage) and RBC Action Direct (self-directed brokerage) and serves both investors requiring advisor-based comprehensive financial solutions and self-managed investors. Services are provided by over 1,420 investment advisors, over 180 investment representatives, as well as via telephone and the Internet. This group also includes the International Advisory Group, which has both Canadian and internationally-based employees serving international clients. Our goal is to maintain our market position in Canada by continuing to build and enhance existing client relationships.

RBC Global Private Banking (Canada)

Our private counsel, personal trust and private banking groups serve high net worth clients across Canada, and offer a relationship management approach for the client in need of sophisticated solutions. This group works with RBC Global Private Banking (international) to ensure we can serve clients who have interests in Canada as well as around the world. In Canada, 60 investment counselors, 80 trust officers and 200 private bankers are in locations across the country.

Global Asset Management

This unit includes RBC Global Investment Management and RBC Funds, Canada's second largest mutual fund company. We directly manage more than $40 billion of assets in mutual and pooled funds as well as other client assets. We provide proprietary and externally-managed investment management products and advisory 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 encompass a broad range of investment solutions including money market, fixed income, balanced and Canadian, U.S. and global equity funds, as well as alternative investments. In 2003, our goal is to continue the strategy, first implemented in 2001, to broaden the distribution channels for investment management services and mutual fund products. This strategy has contributed to a 12% increase in our share of the Canadian mutual fund market over the past two years.

United States

RBC Dain Rauscher

Minneapolis-based RBC Dain Rauscher comprises a full-service brokerage subsidiary and a fixed income business. RBC Dain Rauscher plans to grow through broadening and deepening relationships with existing clients by understanding their needs and the potential profitability of the client relationship. We also plan to grow by focusing on opportunities which generate greater market share and scale within our existing markets. The integration of Boston-based Tucker Anthony Sutro was completed in 2002 and made RBC Dain Rauscher the 9th-largest full-service securities firm in the U.S., with close to 2,000 financial consultants serving individual clients from coast to coast and a fixed income business with 280 investment bankers, sales representatives and traders serving institutional and retail clients nationwide.

International

RBC Global Private Banking

This internationally-focused unit provides private banking, trust and investment counseling solutions to high net worth clients in more than 100 countries. Our goal is to provide specialized global services to high net worth clients with assets of more than $1 million. In 2003, we intend to grow revenues by leveraging CRM capabilities within the group, by exploring potential European and North and South American acquisitions, and by building alliances in markets where we already have a presence. The addition of non-proprietary money management capabilities will expand our value proposition to clients.

Financial highlights by division

RBC Investments' revenues grew 12% from last year for the reasons mentioned on page 32. The decline in revenues from the Canadian & International Brokerage group was due to lower transaction- and fee-based revenues, reflecting continued weakness in capital markets. Global Asset Management's revenues declined 57% as revenues in 2001 included a $313 million gain on the sale of RT Capital Management and 10 months of results from that business that did not recur in 2002.

Revenues

(C$ millions)	% change	2002	2001
Canadian & International Brokerage	(9)%	**$ 984**	$ 1,076
RBC Dain Rauscher (1)	106	**1,702**	827

RBC Global Private Banking (2)	5	**678**	643
Global Asset Management (3)	(57)	**286**	660
Other (4)	(108)	**(3)**	37
	12%	**$ 3,647**	$ 3,243

(1) 2002 revenues include Tucker Anthony Sutro acquired on October 31, 2001.

(2) Includes both Canadian and international businesses and Financial Planning.

(3) 2001 revenues included RT Capital Management until August 15, 2001 and a $313 million gain on the sale of RT Capital Management.

(4) 2001 revenues included a $36 million gain on the sale of Group Retirement Services.
Excluding this gain, 2001 revenues were $1 million.

Despite difficult capital market conditions, our Canadian & International Brokerage group was able to grow its assets, with much of the growth coming from fee-generating assets. Higher AUA in RBC Global Private Banking were related to an increase in new business, the acquisition of the assets of Barclays Bank PLC's private banking operations in the Americas and a 5% increase in the value of the British pound against the Canadian dollar. These increases largely offset lower AUA at RBC Dain Rauscher, due to declines in market values, as well as an expected decrease related to broker attrition resulting from weak market conditions and the integration of Tucker Anthony Sutro into RBC Dain Rauscher.

Assets under administration

(C$ millions)	% change	2002	2001
Personal			
Canadian & International Brokerage	3%	**$111,340**	$107,760
RBC Dain Rauscher	(18)	**132,930**	161,740
RBC Global Private Banking	21	**82,390**	67,990
	(3)	**326,660**	337,490
Institutional — RBC Global Private Banking	14	**69,730**	61,010
	(1)%	**$396,390**	$398,500

The decline in personal AUM largely reflected lower asset values due to weak capital market conditions. As part of the integration of Tucker Anthony Sutro into RBC Dain Rauscher, a non-core asset management business which was acquired as part of Tucker Anthony Sutro was divested, contributing to the decrease in personal AUM. Much of the increase in institutional AUM was related to the accumulation of new assets in RBC Global Private Banking and at RBC Dain Rauscher. Mutual fund asset levels remained relatively stable with lower market values offset by strong net sales driven by a successful RRSP campaign.

Assets under management

(C$ millions)	% change	2002	2001
Personal	(23)%	**$35,660**	$46,620
Institutional	9	**18,410**	16,940
Mutual funds	(1)	**34,230**	34,550
	(10)%	**$88,300**	$98,110

RBC Capital Markets

Business profile

RBC Capital Markets provides wholesale financial services to large corporate, government and institutional clients in North America and in specialized product and industry sectors globally. Headquartered in Toronto, RBC Capital Markets has key centres of expertise in Minneapolis, New York and London, and offices in 27 other cities.

Industry profile

The Canadian wholesale financial services market is mature and, as a result, many Canadian firms are seeking growth opportunities outside of their domestic market, primarily in the U.S. The U.S. capital markets are dominated by several large global investment banks whose principal focus is on the top tier of companies forming the S&P 500. However, we believe significant opportunities exist for specialized players targeting the lower end of the S&P 500. To succeed in the North American context requires the ability to provide clients with innovative, value-added solutions that reflect a keen understanding of both the company and industry sector. Increasingly, new business opportunities will accrue to those firms with a reputation for adhering to high ethical standards.

Our strengths

- Top-tier market shares in virtually all lines of business in Canada
- Established reputation as a premier Canadian investment dealer as evidenced by our marketshare leadership
- Superior origination and distribution capability as measured by our standings in underwriting league tables
- Expertise and market knowledge in a broad array of industries

Our strategy

Our goals are to be recognized as the leading corporate and investment bank in Canada based on external rankings and to build a successful integrated North American business, while continuing to expand our specialized global businesses.

Key strategies for RBC Capital Markets include the following:

- In Canada, to maintain our position as a leading full-service provider in all of our markets by continuing to leverage the breadth of our long-standing client relationships, the depth of our trading, research and sales capabilities, and the strength of our brand and reputation in the Canadian market
- In the U.S., to provide value-added solutions by offering clients a broad product portfolio delivered through specialized industry teams, with the goal of building an integrated North American franchise. We will leverage the depth of our research and advisory capabilities in targeted North American industry sectors, specifically energy, technology, communications, health care, consumer products, and mid-size financial institutions
- Continue to expand our global specialized businesses by providing clients with customized, value-added solutions in the areas of bonds, money markets, foreign exchange, structured finance and equity and credit derivatives

Outlook for 2003

Given our expectations for reasonable economic growth in both Canada and the U.S. and a moderate capital markets recovery in 2003, we are anticipating modest revenue growth in 2003. Our outlook is based on the expectation of a recovery in trading volumes, merger and acquisition activities and new issue and advisory mandates to more normalized levels. We intend to maintain our focus on strategic cost management and to keep the rate of expense growth below that of revenue growth. We also plan to continue to proactively manage the credit risk associated with our corporate loan portfolio.

Financial performance

Net income increased 26%, or 17% on a core basis, as expenses fell far more than did revenues. Core ROE was unchanged from 2001, with higher net income offset by $700 million of additional common equity attributed to the segment compared to last year, reflecting a change in methodology for attributing capital relating to credit risk.

Revenues declined $86 million or 3% from last year, due largely to lower trading revenues in our platform resulting from continued weakness in capital markets and lower lending revenues due to targeted reductions in the corporate loan portfolio.

Non-interest expense fell $177 million or 10% due to a lower number of employees and reduced variable compensation costs. Retention compensation costs related to the acquisition of Dain Rauscher Wessels, fully integrated into RBC Capital Markets since early 2002, were also lower, falling to $51 million from $88 million in 2001.

The provision for credit losses increased by $58 million or 14% from 2001, due primarily to certain telecommunication, cable and energy accounts that were classified as non accrual during the year. The increase in the provision for credit losses was partially offset by related credit derivative gains which were recorded in non-interest revenue. Non accrual loans were down $20 million or 2% from last year, reflecting charge-offs in the corporate loan portfolio.

The decline in income taxes was attributable to the tax rate differentials in various jurisdictions, as well as higher income taxes in 2001

resulting from a special $27 million income tax expense shown in Table 6 on page 27.

Results

(C$ millions, taxable equivalent basis, except percentage amounts)	% change	2002	2001
Net interest income	29%	**$ 553**	$ 429
Non-interest revenue	(9)	**2,142**	2,352
Gross revenues	(3)	**2,695**	2,781
Provision for credit losses			
Allocated specific	14	**465**	407
Total	14	**465**	407
Non-interest expense (1)	(10)	**1,627**	1,804
Net income before income taxes	6	**603**	570
Income taxes	(28)	**143**	200
Taxable equivalent adjustment	—	**21**	21
Net income	26%	**$ 439**	$ 349
U.S. net income	n.m.	**$ (36)**	$ (77)
Net income as a % of total bank net income	100bp	**15%**	14%
ROE	90bp	**10.5%**	9.6%
Economic Profit	n.m.	**$ (55)**	$ (44)
Average assets	13%	**180,700**	159,500
Average loans and acceptances	(6)	**28,800**	30,700
Average deposits	10	**81,100**	73,600
Average common equity	21	**4,000**	3,300
Core results (2)			
Net income	17	**439**	376
ROE	—	**10.5%**	10.5%
Credit information			
Non accrual loans	(2)%	**$ 1,094**	$ 1,114
Net charge-offs	120	**510**	232
Net charge-offs as a % of average loans and acceptances	101bp	**1.77%**	.76%
Number of employees (full-time equivalent)	(1)%	**2,938**	2,954

(1) Includes goodwill amortization expense of $43 million in 2001 (nil in 2002).

(2) Excluding special items in 2001 detailed in Table 6 on page 27. Only the lines affected by special items are shown here.

n.m. not meaningful

Strategy by division

Capital Markets Services

This division was formed in November 2001, combining the equity research, sales and trading businesses with the corporate and investment banking businesses. We offer a full range of credit and corporate finance products, including debt and equity underwriting, mergers & acquisitions (M&A) advice and execution, and expertise in research and equity sales and trading activities.

In Canada, we will build on our key strengths — expert knowledge of the Canadian markets, breadth and longevity of client relationships, depth in trading, research and sales and a long-standing reputation as a top-ranked domestic investment bank — to continue to be a full-service provider to all industries.

On a North American basis, we will be industry-focused — specifically technology, telecommunication, heath care, energy, consumer products and mid-size financial institutions. By leveraging our research and advisory capabilities, we expect to differentiate ourselves on our ability to provide superior knowledge of investment opportunities and market-based solutions for our target clients.

Financial highlights by division

Revenues were up 3% from 2001. Factors contributing to this increase include strong performance in Canadian equity new issue and M&A business and credit derivative gains related to accounts that were classified as impaired during the year. These factors offset lower sales and trading revenues, weak performance in U.S. equity new issue and M&A business and a 9% decline in core lending revenues. Core lending revenues decreased due to tightened spreads and the targeted reduction in the corporate loan portfolio, which is also reflected in the 13% decline in average assets.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	3%	**$ 1,064**	$ 1,033
Average assets	(13)	**13,600**	15,700

Strategy by division

Global Financial Products

This division was formed in November 2001 to address the continuing convergence of financial products available to clients. Its formation brought together the business activities involving the origination, syndication, securitization, trading and distribution of debt products globally. These products include loans, bonds and derivatives at both the investment grade and sub-investment grade levels. As well, Global Financial Products provides leveraged product asset management capabilities and is the centre of expertise for RBC Capital Markets' proprietary trading activities. The combination of these businesses provides the ability to maximize internal expertise and deliver a broad array of value-added ideas and solutions to clients.

We intend to continue to focus on identifying opportunities where we can build from our existing strengths to provide solutions-based approaches to structuring transactions for our clients.

Financial highlights by division

Revenues were up 5% in 2002. Favourable interest rate trading environments during the year helped to fuel revenue and asset growth from our traditional bond and derivative businesses, as well as revenue growth from new initiatives developed in securitization, leveraged finance and asset management. Revenues from our proprietary trading activities were down slightly from 2001 levels. Overall, this business achieved strong performance despite difficult markets and business limitations resulting from the displacement of our New York operations after the events of September 11th.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	5%	**$ 883**	$ 839
Average assets	41	**70,700**	50,200

Strategy by division

Global Treasury Services

Global Treasury Services combines our money markets and foreign exchange businesses and provides global clients with foreign exchange, commodities, derivatives and interest rate products, as well as currency risk management and advisory services. These products and services are delivered through our extensive global sales and trading network, operating from centres that include Toronto, London and New York. Recognized as a market leader in foreign exchange e-commerce solutions, we also deliver services through our Internet trading platform, FX Direct, and are a member of the multi-bank global trading platform, FXall. We will continue to invest in innovative electronic delivery channels that offer sophisticated and flexible products and services.

Financial highlights by division

Revenues were down 19% from 2001, which was a record year. The foreign exchange businesses experienced increased volatility in foreign exchange rates and decreased volumes, while economic and interest rate uncertainty negatively affected the money markets businesses. However, the derivative-based businesses performed well and we continued to grow revenues through e-commerce channels.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	(19)%	**$ 510**	$ 627
Average assets	5	**78,500**	75,100

Strategy by division

Global Credit

Global Credit provides centralized management of all credit exposure associated with our loan portfolio. While wholesale lending is fundamental to the attraction and expansion of high-margin client businesses, lending must be strategic in order to maximize the returns to shareholders. Our portfolio and transaction management specialists use sophisticated risk management and analytical tools designed to ensure that the pricing on loans is commensurate with the associated risk and reflects the value of all products and services a client has with RBC.

Our transaction specialists use appropriate structures to provide clients with value-added, as opposed to commoditized, credit solutions. We work closely with our distribution teams to further reduce the size of our corporate lending base, while continuing to enhance the quality of earnings from this source.

Financial highlights by division

Global Credit's 29% decline in revenues was mainly driven by net negative mark-to-market adjustments on credit derivatives and other financial instruments and targeted reductions in our non-core lending portfolio, which is reflected in the 25% decline in average assets. These decreases offset revenue growth from our structured lending business and our successful efforts to transition towards higher-value loan transactions with greater liquidity.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	(29)%	**$ 142**	$ 201
Average assets	(25)	**10,100**	13,500

Strategy by division

Alternative Investments

Alternative Investments was formed in June 2002 with a mandate to expand our wholesale asset management capabilities, which today include operations in hedge funds and private equity. The alternative asset business provides non-traditional investment opportunities to high net worth individuals, corporations and institutional clients. These investment options include private equity and hedge funds, and can extend to other vehicles such as leveraged buyouts, Collateralized Debt Obligations (CDOs) and managed futures. We are uniquely positioned to leverage our existing infrastructure and our superior product knowledge across other businesses within RBC who have strong relationships with our target client base.

Financial highlights by division

Revenues were up 3% from 2001. Factors contributing to this increase include strong performance in Canadian equity new issue and M&A business and credit derivative gains related to accounts that were classified as impaired during the year. These factors offset lower sales and trading revenues, weak performance in U.S. equity new issue and M&A business and a 9% decline in core lending revenues. Core lending revenues decreased due to tightened spreads and the targeted reduction in the corporate loan portfolio, which is also reflected in the 13% decline in average assets.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	19%	**$ 96**	$ 81
Average assets	56	**7,800**	5,000

RBC Global Services

Business profile

RBC Global Services offers specialized transaction processing services to business, commercial, corporate and institutional clients in domestic and select international markets. Key businesses include investment administration, correspondent banking, cash management, payments and trade finance. Our 50% interest in the Moneris Solutions merchant card processing joint venture is reported under RBC Global Services.

Industry profile

The industry is characterized by increasing consolidation as certain segments become more global. Monoline specialists and new market entrants compete against traditional financial institutions. Scale is increasingly important to support the significant investment in technology required to introduce new products and services, accommodate industry-driven infrastructure changes and enhance operational efficiencies.

Our strengths

- We have a leadership position in Canada in these businesses as measured by AUA and market share of number of client relationships
- We have strong client relationships as evidenced by our high rate of client retention and new business generated from existing clients
- We are recognized for quality of service as evidenced by our top rankings in third-party client surveys
- We continue to develop and deploy new technology and client service solutions
- We are able to leverage our market position by aligning the resources within RBC Global Services with the expertise of other RBC platforms to offer a superior integrated service to the market

Our strategy

Our goal is to maintain and enhance our leadership position in Canada while continuing to develop a competitive international presence. To meet our goal, we will:

- Build upon existing client relationships to develop new business in select domestic and international markets
- Grow the business through key alliances, acquisitions and partnerships and continue to leverage the Moneris Solutions joint venture
- Drive revenue growth by developing new products and selling higher-margin value-added services, such as securities lending and trade advisory
- Enhance our processing and systems platforms to deliver new capabilities, improve efficiencies and drive economies of scale
- Continue the shift to electronic payment products and services focusing on Web-based solutions.

Outlook for 2003

Although we expect interest rates to rise in the second half of 2003, they will likely remain low in historical terms, which will continue to have an unfavourable impact on our revenue growth in 2003. As our revenues earned on deposits and cash balances are highly dependent upon the interest rate environment, our net interest income growth may be adversely affected. At the same time, the expectation of a modest recovery in capital markets beginning in the second half of 2003 should have a favourable impact on revenues from foreign exchange and on fee revenues from higher AUA.

Financial performance

Net income declined 35% while core net income, excluding the gain on the formation of the Moneris Solutions joint venture in 2001, declined 8% from last year, partially reflecting an increase in the provision for credit losses.

ROE was 28.7% compared to core ROE of 34.7% in 2001. The decline in ROE reflects lower net income as well as a $100 million increase in average common equity attributed to this segment in 2002. The higher common equity reflects the 50% interest in the Moneris Solutions joint venture and higher capital attribution for operating risk.

Revenues were down 6% from last year, reflecting lower interest income due to the low interest rate environment, as well as lower foreign exchange revenues, which more than offset a 10% increase in fee income. Core revenues (which exclude an $89 million gain on the formation of the Moneris Solutions joint venture) were up 5%. Revenues were positively affected by the acquisition of Perpetual Fund Services (an Australian custody, investment administration and unit registry business) on July 31, 2001 and a change pertaining to the classification of services provided by us to Moneris Solutions, effective November 2001. Payments for services provided to Moneris Solutions are now being treated as revenues, whereas previously they were treated as cost recoveries. Excluding these factors, revenue decreased by 3%.

Expenses were $63 million or 13% higher in 2002 due to the inclusion of a full year of Perpetual Fund Services as well as continued investments in technology. Excluding the acquisition of Perpetual Fund Services and the change in the classification of services provided by us to Moneris Solutions discussed above, expenses increased by 2%.

The increases in both the provision for credit losses and nonaccrual loans were associated with Argentine loans classified as nonaccrual during the year.

Results

(C$ millions, except percentage amounts)	% change	2002	2001
Net interest income	(8)%	**$ 136**	$ 148
Non-interest revenue	(5)	**672**	710
Gross revenues	(6)	**808**	858
Provision for credit losses			
Allocated specific	n.m.	**10**	(2)
Total	n.m.	**10**	(2)
Non-interest expense (1)	13	**548**	485
Net income before income taxes	(33)	**250**	375
Income taxes	(29)	**77**	109
Net income	(35)%	**$ 173**	$ 266
U.S. net income	(47)	**$ 9**	$ 17
Net income as a % of total bank net income	(500)bp	**6%**	11%
ROE	(2,060)bp	**28.7%**	49.3%
Economic Profit	(18)%	**$ 100**	$ 122
Average common equity	20	**600**	500
Core results (2)			
Gross revenues	5	**808**	769
Net income	(8)	**173**	189
ROE	(600)bp	**28.7%**	34.7%
Credit information			
Nonaccrual loans	275%	**$ 30**	$ 8
Net charge-offs	(114)	**(1)**	7
Net charge-offs as a % of average loans and acceptances	(40)bp	**(.05)%**	.35%
Number of employees			
(full-time equivalent)	1%	**2,571**	2,557

(1) Includes goodwill amortization expense of $8 million in 2001 (nil in 2002).
(2) Excluding special items in 2001 detailed in Table 6 on page 27. Only the lines affected by special items are shown here.
n.m. not meaningful

Strategy by division

Institutional & Investor Services

Institutional & Investor Services is Canada's largest custodian as measured by AUA, and a leading provider of investment administration services to corporate and institutional investors worldwide. We operate from 13 locations throughout the world, with a global custody network spanning 80 markets.

We plan to continue to leverage our leadership position in the Canadian market to expand internationally, with a focus on serving fund managers, financial institutions and private banks.

We expect to achieve growth in our fee-based revenue streams by:

- Selling newly developed products and services to existing clients
- Expanding our client offerings in Europe and Asia-Pacific
- Further exploring alliance and acquisition opportunities

Financial highlights by division

Revenues grew $3 million or 1% in 2002, as the positive impact of the Perpetual Fund Services acquisition and higher fee income offset lower revenues from foreign exchange and interest income, due to the low interest rate environment. AUA increased by 3% from 2001 due to new business, but the effect of equity market declines largely offset the additions.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	1%	**$ 401**	$ 398
Assets under administration	3	**963,200**	936,700

Strategy by division

Financial Institutions

A comprehensive range of correspondent banking services is 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.

Our goal is to leverage our leadership position in the Canadian dollar clearing market and our client relationships by:

- Identifying differentiated value-added solutions that address the unique needs of the different market segments
- Adding new revenue streams by introducing service offerings that integrate the new product developments of RBC Global Services with those of other business platforms

We will continue to monitor and actively manage our exposure to higher risk markets.

Financial highlights by division

Revenues fell $15 million or 13% from last year, primarily due to a decrease in interest income associated with the low interest environment. In addition, certain fee revenues were transferred from RBC Global Services to RBC Capital Markets in 2002, contributing to the decline in revenues. The decrease in average assets reflected strategic reductions in the size of our Latin American loan portfolio, which now totals $146 million.

Results

(C$ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	(13)%	**$ 98**	$ 113
Average assets	(15)	**1,700**	2,000
Average deposits	—	**1,700**	1,700

Strategy by division

Treasury Management & Trade

Treasury Management & Trade provides cash management, payment and trade services to business, commercial, corporate and public sector segments. Our trade team provides Canadian and foreign importers and exporters with a variety of trade products, services and counsel. Our cash management group provides a range of solutions to clients that allow for more effective cash flow and integration with client processing.

Through Moneris Solutions we provide merchants with credit and debit card transaction processing services.

Our goal is to continue to be the leading provider in Canada by retaining profitable client relationships and growing market share in strategic markets by:

- Introducing a market segmentation approach that accommodates the diverse needs of business markets
- Expanding the functionality of our Web-based delivery channel for both cash management and trade services
- Introducing new trade products and services as well as expanding trade alliances to meet clients' international trade requirements while effectively managing risk
- Leveraging our cash management sales and service leadership position

Financial highlights by division

Revenues decreased $38 million or 11% from 2001. Excluding the $89 million gain on the formation of the Moneris Solutions joint venture in 2001, revenues increased $51 million or 20%. This increase primarily reflected a change pertaining to the classification of services provided by us to Moneris Solutions, effective November 2001. Payment for services provided to Moneris Solutions are now being treated as revenues, whereas previously they were treated as cost recoveries. Excluding this factor, revenues increased 5%, reflecting growth in fee income.

Results

(C$ millions, taxable equivalent basis, volumes in thousands)	% change	2002	2001
Gross revenues	(11)%	**$ 309**	$ 347
Core gross revenues (1)	20	**309**	258
Average deposits	6	**6,350**	6,000
Payment volumes (2)	12	**7,440**	6,670
Payment errors (per 10,000 payments)	(40)	**.33**	.55

(1) Excluding special items in 2001 detailed in Table 6 on page 27.
(2) Restated to include payment types not previously included in 2001.

Financial priority: Revenue growth and diversification

Highlights

- Revenues up 7%
- Operating (core) revenues up 11%, reflecting acquisitions
- Excluding recent U.S. acquisitions, operating revenues unchanged
- Net interest income up 10%
- Net interest margin of 1.93%, down four basis points
- Non-interest revenue up 5% and core non-interest revenues up 11%
- Non-interest revenue 54% of total revenues

TABLE 7 Operating revenues

(C$ millions, taxable equivalent basis)	2002	2001	2002 vs 2001 Increase (decrease)	
Net interest income	**$ 7,191**	$ 6,529	**$ 662**	**10%**
Non-interest revenue	**8,579**	8,155	**424**	**5**
Total revenues (reported)	**15,770**	14,684	**1,086**	**7**
Less: Special items (1)	**—**	(445)	**(445)**	**n.m.**
Operating revenues	**15,770**	14,239	**1,531**	**11**
Less: Revenues of recent U.S. acquisitions (2)	**(3,265)**	(1,735)	**1,530**	**88**
Operating revenues, excluding recent U.S. acquisitions	**$12,505**	$12,504	**$ 1**	**—%**

(1) Special items in 2001 are described in Table 6 on page 27. There were no special items for 2002.
(2) Represents revenues of RBC Centura (now includes Eagle Banc shares, RBC Mortgage for the purposes of this discussion and analysis and what was previously SFNB), RBC Liberty Insurance and RBC Dain Rauscher (includes Tucker Anthony Sutro) and excludes Dain Rauscher Wessels, which was integrated into RBC Capital Markets in early 2002.
n.m. not meaningful.

Total revenues were up $1.1 billion or 7% from 2001. Operating, or core, revenues (which exclude $445 million of gains from special items recorded in 2001) were up $1.5 billion or 11% from a year ago.

As shown in the table above, revenues from recent U.S. acquisitions accounted for all of the growth in operating revenue. Excluding recent U.S. acquisitions, operating revenues were unchanged from a year ago. This compared to a decline in operating expenses of 5% (discussed in the Cost control section on page 42).

Net interest income

Net interest income was up 10% from 2001 to $7.2 billion. The majority of the increase stemmed from recent U.S. acquisitions. If these acquisitions are excluded, net interest income would have been up 2% due to an increase in the amount of interest-earning assets, particularly residential mortgages, which more than offset a narrower spread on deposits.

As shown in Table 8 below, the net interest margin decreased by four basis points from last year to 1.93%, reflecting a narrower spread between the prime rate and core deposit funding costs resulting from a reduction in the average Canadian prime rate to 4.15% from 6.55% in 2001.

TABLE 8 Net interest income and margin

(C$ millions, except percentage amounts)	2002	2001	2000
Average assets	**$371,700**	$331,600	$284,100
Net interest income (1)	**7,191**	6,529	5,307
Net interest margin (2)	**1.93%**	1.97%	1.87%

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

Outlook

We are targeting core revenue growth of 5—8% in fiscal 2003, based on our expectations that capital market activity will pick up somewhat, interest rates in Canada will rise and the Canadian and U.S. economies will grow somewhat faster than in 2002.

TABLE 9 Net interest income on average assets and liabilities

(C$ millions, taxable equivalent basis, except percentage amounts)	Average balances (1)			Interest (2)			Average rate		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Assets									
Deposits with banks									
Canada	**$ 331**	$ 427	$ 612	**$ 6**	$ 18	$ 22	**1.81%**	4.22%	3.59%
International	**15,395**	16,168	13,888	**476**	813	802	**3.09**	5.03	5.77
	15,726	16,595	14,500	**482**	831	824	**3.06**	5.01	5.68
Securities									
Trading account	**66,631**	53,477	40,669	**1,945**	2,143	1,519	**2.92**	4.01	3.74
Available for sale (3)	**25,583**	21,623	19,471	**1,170**	1,170	1,107	**4.57**	5.41	5.69
Held to maturity	**—**	—	1,057	—	—	71	**—**	—	6.72
	92,214	75,100	61,197	**3,115**	3,313	2,697	**3.38**	4.41	4.41
Assets purchased under reverse repurchase agreements	**35,463**	29,591	21,729	**651**	1,163	1,078	**1.84**	3.93	4.96
Loans (4)									
Canada									
Residential mortgage	**65,901**	62,449	59,860	**3,903**	4,087	3,891	**5.92**	6.54	6.50
Personal	**26,631**	28,089	26,949	**1,734**	2,325	2,290	**6.51**	8.28	8.50
Credit card	**4,354**	4,586	3,559	**519**	556	405	**11.92**	12.12	11.38
Business and government	**30,217**	33,890	34,381	**1,291**	1,281	1,506	**4.27**	3.78	4.38
	127,103	129,014	124,749	**7,447**	8,249	8,092	**5.86**	6.39	6.49
International	**41,846**	33,232	24,927	**3,016**	3,783	3,446	**7.21**	11.38	13.82
	168,949	162,246	149,676	**10,463**	12,032	11,538	**6.19**	7.42	7.71
Total interest-earning assets	**312,352**	283,532	247,102	**14,711**	17,339	16,137	**4.71**	6.12	6.53
Non-interest-bearing deposits with banks	**1,753**	1,188	930						
Customers' liability under acceptances	**8,515**	9,890	10,281						
Other assets	**51,365**	39,025	27,724						
Allowance for credit losses	**(2,285)**	(2,035)	(1,937)						
Total assets	**$371,700**	$331,600	$284,100	**$14,711**	$17,339	$16,137	**3.96%**	5.23%	5.68%
Liabilities and shareholders' equity									
Deposits (5)									
Canada	**$111,880**	$110,228	$107,533	**$ 2,964**	$ 4,712	$ 5,060	**2.65%**	4.27%	4.71%
International	**108,849**	90,459	71,024	**2,745**	4,000	3,997	**2.52**	4.42	5.63
	220,729	200,687	178,557	**5,709**	8,712	9,057	**2.59**	4.34	5.07
Obligations related to securities sold short	**19,563**	16,358	14,195	**797**	654	656	**4.07**	4.00	4.62
Obligations related to assets sold under repurchase agreements	**19,630**	19,892	11,873	**414**	894	653	**2.11**	4.49	5.50
Subordinated debentures	**7,089**	6,972	5,129	**406**	410	344	**5.73**	5.88	6.71
Other interest-bearing liabilities	**5,546**	3,042	3,042	**194**	140	120	**3.50**	4.60	3.94
Total interest-bearing liabilities	**272,557**	246,951	212,796	**7,520**	10,810	10,830	**2.76**	4.38	5.09
Non-interest-bearing deposits	**21,540**	20,732	17,509						
Acceptances	**8,515**	9,890	10,281						
Other liabilities	**50,526**	38,092	30,811						
	353,138	315,665	271,397	**7,520**	10,810	10,830	**2.13**	3.42	3.99
Shareholders' equity									
Preferred	**1,682**	2,036	1,978						
Common	**16,880**	13,899	10,725						
Total liabilities and shareholders' equity	**$371,700**	$331,600	$284,100	**$ 7,520**	$10,810	$10,830	**2.02%**	3.26%	3.81%

Net interest income as a % of total average assets	**$371,700**	$331,600	$284,100	**$ 7,191**	$ 6,529	$ 5,307	**1.93%**	1.97%	1.87%
Net interest income as a % of total average interest-earning assets									
Canada	**$199,066**	$186,480	$180,429	**$ 6,537**	$ 5,324	$ 4,796	**3.28%**	2.85%	2.66%
International	**113,286**	97,052	66,673	**654**	1,205	511	**.58**	1.24	.77
Total	**$312,352**	$283,532	$247,102	**$ 7,191**	$ 6,529	$ 5,307	**2.30%**	2.30%	2.15%

(1) Calculated on a daily basis.

(2) Interest income includes loan fees of $321 million (2001 — $328 million; 2000 — $274 million). The taxable equivalent adjustment is based on the Canadian tax rate of 38.5% (2001 — 41.5%; 2000 — 42.8%) and U.S. federal tax rate of 39.5%.

(3) Tax-exempt securities had average balances of $6,729 million (2001 — $6,752 million; 2000 — $2,848 million), interest earned of $233 million (2001 — $141 million; 2000 — $63 million) and average rates of 3.46% (2001 — 2.09%; 2000 — 2.21%).

(4) Average balances include nonaccrual loans.

(5) Deposits include savings deposits with average balances of $39 billion (2001 — $38 billion; 2000 — $34 billion), interest expense of $.3 billion (2001 — $.6 billion; 2000 — $.7 billion) and average rates of .69% (2001 — 1.58%; 2000 — 2.06%). Deposits also include time deposits with average balances of $47 billion (2001 — $44 billion; 2000 — $38 billion), interest expense of $1.3 billion (2001 — $2.0 billion; 2000 — $2.0 billion) and average rates of 2.85% (2001 — 4.55%; 2000 — 5.26%).

TABLE 10 Change in net interest income

(C$ millions, taxable equivalent basis)	2002 vs 2001 Increase (decrease) due to changes in average volume (1)	2002 vs 2001 Increase (decrease) due to changes in average rate (1)	2002 vs 2001 Net change	2001 vs 2000 Increase (decrease) due to changes in average volume (1)	2001 vs 2000 Increase (decrease) due to changes in average rate (1)	2001 vs 2000 Net change
Assets						
Deposits with banks						
Canada	**$ (3)**	**$ (9)**	**$ (12)**	**$** (7)	$ 3	$ (4)
International	**(37)**	**(300)**	**(337)**	122	(111)	11
Securities						
Trading account	**459**	**(657)**	**(198)**	507	117	624
Available for sale	**196**	**(196)**	**—**	118	(55)	63
Held to maturity	**—**	**—**	**—**	(71)	—	(71)
Assets purchased under reverse repurchase agreements	**197**	**(709)**	**(512)**	339	(254)	85
Loans						
Canada						
Residential mortgage	**218**	**(402)**	**(184)**	169	27	196
Personal	**(116)**	**(475)**	**(591)**	95	(60)	35
Credit card	**(28)**	**(9)**	**(37)**	123	28	151
Business and government	**(147)**	**157**	**10**	(21)	(204)	(225)
International	**832**	**(1,599)**	**(767)**	1,016	(679)	337
Total interest income	**$ 1,571**	**$ (4,199)**	**$ (2,628)**	$ 2,390	$ (1,188)	$ 1,202
Liabilities						
Deposits						
Canada	**$ 70**	**$ (1,818)**	**$ (1,748)**	$ 124	$ (472)	$ (348)
International	**701**	**(1,956)**	**(1,255)**	962	(959)	3
Obligations related to securities sold short	**130**	**13**	**143**	93	(95)	(2)
Obligations related to assets sold under repurchase agreements	**(12)**	**(468)**	**(480)**	377	(136)	241
Subordinated debentures	**7**	**(11)**	**(4)**	112	(46)	66
Other interest-bearing liabilities	**94**	**(40)**	**54**	—	20	20
Total interest expense	**990**	**(4,280)**	**(3,290)**	1,668	(1,688)	(20)
Net interest income	**$ 581**	**$ 81**	**$ 662**	$ 722	$ 500	$ 1,222

(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.

Non-interest revenue

As shown in Table 11 on page 41, non-interest revenue was up $424 million, or 5%, from 2001, while core non-interest revenues, which exclude special items shown in Table 6 on page 27, were up $869 million or 11%, both reflecting recent U.S. acquisitions. Core non-interest revenues were up 12% in RBC Banking, 6% in RBC Insurance and 31% in RBC Investments, largely reflecting acquisitions. Core non-interest revenues were up 8% in RBC Global Services but were down 9% in RBC Capital Markets.

Excluding the impact of recent U.S. acquisitions, core non-interest revenues were down $133 million or 2%.

Partially driven by recent U.S. acquisitions, capital market fees (consisting of fees from full-service brokerage, discount brokerage and the institutional business) were up 23%, deposit and payment service charges were up 17% and investment management and custodial fees were up 8%. Mortgage banking revenues (which relate to mortgages originated in the U.S.) rose 17%, mutual fund revenues were up 4% and securitization revenues were up 38%, reflecting $3.7 billion of residential mortgage securitizations during the year. Card service revenues declined 2%. Despite contributions from recent U.S. acquisitions, trading revenues were down 3%. Insurance revenues were also down 3% while credit fees declined 6%. Other non-interest revenue was up $255 million, or 68%, partially as a result of a $77 million increase in fee revenue at RBC Dain Rauscher for the provision of back office services to other brokerage firms and a $61 million increase in mark-to-market gains for derivative and hedging activities. These mark-to-market gains are determined in accordance with Statement of Financial Accounting Standards, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133).

Excluding the effect of recent U.S. acquisitions, deposit and payment service charges increased by $82 million, securitization revenues increased by $47 million, insurance revenues increased by $16 million, mutual fund revenues increased by $8 million, credit fees declined by $17 million, capital market fees declined by $23 million, investment management and custodial fees declined by $77 million and trading revenues declined by $302 million.

Non-interest revenues accounted for 54% of total revenues, unchanged from 2001.

TABLE 11 Non-interest revenue

(C$ millions, except percentage amounts)	2002	2001	2000	2002 vs 2001 Increase (decrease)	
Capital market fees	**$ 1,866**	$ 1,523	$ 1,538	**$ 343**	**23%**
Trading revenues	**1,766**	1,820	1,540	**(54)**	**(3)**
Investment management and custodial fees	**1,179**	1,096	860	**83**	**8**
Deposit and payment service charges	**1,041**	887	756	**154**	**17**
Mutual fund revenues	**723**	692	624	**31**	**4**
Card service revenues	**285**	290	420	**(5)**	**(2)**
Foreign exchange revenues, other than trading	**277**	300	299	**(23)**	**(8)**
Insurance revenues	**255**	263	151	**(8)**	**(3)**
Mortgage banking revenues	**240**	206	—	**34**	**17**
Credit fees	**223**	237	212	**(14)**	**(6)**
Securitization revenues	**172**	125	104	**47**	**38**
Gain (loss) on disposal of premises and equipment	**15**	22	(16)	**(7)**	**(32)**
Loss on sale of securities	**(95)**	(128)	(11)	**33**	**26**
Other	**632**	377	203	**255**	**68**
Total core	**8,579**	7,710	6,680	**869**	**11**
Special items (1)	**—**	445	—	**(445)**	**n.m.**
Total	**$ 8,579**	$ 8,155	$ 6,680	**$ 424**	**5%**

(1) Special items in 2001 are described in Table 6 on page 27. There were no special items for 2000 and 2002.

n.m. not meaningful

TABLE 12 Trading revenues

(C$ millions)	2002	2001	2000
Net interest income (1)	**$ 127**	$ (68)	$ (365)
Non-interest revenue (2)	**1,766**	1,820	1,540
Total	**$ 1,893**	$ 1,752	$ 1,175
By product			
Equity	**$ 753**	$ 684	$ 495
Fixed income and money markets (3)	**876**	726	378
Foreign exchange contracts (4)	**263**	340	301
Commodity and precious metals	**1**	2	1
Total	**$ 1,893**	$ 1,752	$ 1,175

(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.

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

Trading revenues

Trading revenues include gains and losses on securities and derivatives that arise from market-making, sales and principal trading activities. These securities and derivative positions are marked-to-market on a daily basis. A description of trading revenues included in net interest income and non-interest revenue is provided in footnotes (1) and (2) in Table 12 above.

As shown in Table 12, total trading revenues were up $141 million or 8% in 2002. This was partially due to the acquisition of Tucker Anthony Sutro on October 31, 2001. Proprietary trading activities are strictly managed in accordance with VAR and trading limits and we continue to conduct the majority of client-related trading in the major G7 markets and currencies.

Fixed income and money market trading revenues increased by $150 million, or 21%, largely from increases in fixed income trading volumes due to the favourable interest rate environment provided by successive central bank rate cuts and increases in derivative trading activities. Equity trading revenues increased by $69 million, or 10%, primarily due to the inclusion of revenues from Tucker Anthony Sutro. Foreign exchange contract trading revenues declined by $77 million, or 23%, in part due to lower trading volumes caused by increased volatility in the foreign exchange markets.

Financial priority: Cost control

Highlights

- Non-interest expense up 6% from 2001 and core non-interest expense up 7%, reflecting recent U.S. acquisitions
- Operating non-interest expense excluding recent U.S. acquisitions down 5%, reflecting continued cost control efforts

As shown in the table below, non-interest expense was up $603 million or 6% and core non-interest expense (i.e., excluding special items shown in Table 6 on page 27) was up $694 million or 7% from 2001.

Operating non-interest expense (which excludes the special items mentioned in Table 6 on page 27, the costs of SARs and retention compensation associated with acquisitions) was up $708 million or 8% in 2002.

Non-interest expense of recent U.S. acquisitions was $2.7 billion, up $1.1 billion in 2002. The large increase is primarily due to the inclusion of a full year of expenses for RBC Centura, which was acquired on June 5, 2001, and expenses relating to the acquisition of Tucker Anthony Sutro, which was acquired on October 31, 2001. Excluding recent U.S. acquisitions, operating non-interest expense was down $411 million or 5% from 2001. Further excluding goodwill amortization expense not associated with recent U.S. acquisitions, operating non-interest expense was down $261 million, or 3%, in 2002.

From a segment perspective, by excluding expenses of recent U.S. acquisitions, operating expenses for RBC Investments would have been down $133 million or 8%, for RBC Banking down $113 million or 3% and for RBC Insurance down $10 million or 5%. The decline in RBC Banking's expenses reflects ongoing success with its cost control initiatives initially implemented in 1999, while the reduction in RBC Investments largely reflects lower variable compensation in the weaker capital markets environment and cost control efforts. The decrease in RBC Insurance expenses partially reflects the cessation of goodwill amortization on November 1, 2001.

Operating expenses for RBC Capital Markets were down $140 million or 8%, whereas operating expenses at RBC Global Services were up $63 million or 13%. The reductions at RBC Capital markets, similar to the reductions at RBC Investments, were the result of lower variable compensation and continuing cost control. The increase in RBC Global Services costs was affected by a change that became effective November 2001, pertaining to the classification of services provided by us to Moneris Solutions, a card processing joint venture in which we have a 50% interest. Payments for services provided to Moneris Solutions are now being treated as revenues, whereas previously they were treated as cost recoveries. Also, expenses were impacted by the July 2001 acquisition of Perpetual Fund Services. Excluding this acquisition, and the change in classification of services provided to Moneris Solutions, operating expenses at RBC Global Services increased by 2%.

Human resources costs increased by $589 million or 10% in 2002, largely the result of a $464 million or 17% increase in salaries expense and a $100 million or 14% increase in benefits expense. The increase in salaries expense is primarily due to the acquisition of RBC Centura and Tucker Anthony Sutro. Pension benefit expense increased by $129 million this year primarily due to a decrease in the fair value of plan assets due to weak equity markets, settlement costs on pension-related matters with Royal Trust pension plan members and increases in the interest cost on the benefit obligation. Furthermore, our defined contribution pension expenses were higher due to changes to our U.S. plan design and the launch of our Canadian defined contribution plan.

Other post retirement benefits expense decreased by $39 million this year primarily as a result of an $87 million charge that was taken in 2001 following the review of certain pension and other related future benefit plans. No similar charge was taken this year.

Retention compensation costs declined by $18 million to $158 million despite the addition of $45 million of retention compensation costs pertaining to Tucker Anthony Sutro. We expect total retention compensation costs to fall to approximately $87 million in 2003 and $53 million in 2004. SAR expenses rose slightly during the year. SARs are discussed in Note 16 on page 89, and their costs are determined based upon the change in our share price and the vesting, which occurs over time.

Communications costs increased by $111 million or 16%, equipment costs were up $81 million or 12% and occupancy costs increased by $72 million or 10%. These increases largely relate to the inclusion of a full year of expenses for RBC Centura Bank, which was acquired on June 5, 2001 and Tucker Anthony Sutro, which was acquired on October 31, 2001.

Excluding expenses from recent U.S. acquisitions, equipment costs would have been up $51 million or 9%, human resource costs down $147 million or 3%, amortization of goodwill and other intangibles down $147 million or 87%, other costs down $121 million or 12%, occupancy costs down $24 million or 4%, professional fees down $23 million or 7% and communications costs would have been unchanged.

TABLE 13 Operating non-interest expense

(C$ millions)	2002	2001	2002 vs 2001 Increase (decrease)	
Non-interest expense	**$10,244**	$ 9,641	**$ 603**	**6%**
Less: Special items (1)	**—**	(91)	**(91)**	**n.m.**
Core non-interest expense	**10,244**	9,550	**694**	**7**
Less: Costs of SARs	**(27)**	(23)	**4**	**17**
RBC Dain Rauscher retention compensation (2)	**(158)**	(176)	**(18)**	**(10)**
Operating expenses	**10,059**	9,351	**708**	**8**
Less: Non-interest expense of recent U.S. acquisitions (3)	**(2,725)**	(1,606)	**1,119**	**70**

Operating expenses, excluding recent U.S. acquisitions	**7,334**	7,745	**(411)**	**(5)**
Less: amortization of goodwill not associated with recent U.S. acquisitions	**—**	(150)	**(150)**	**n.m.**
Operating expenses, excluding recent U.S. acquisitions and goodwill amortization	**$ 7,334**	$ 7,595	**$ (261)**	**(3)%**

(1) Special items in 2001 are described in Table 6 on page 27. There were no special items in 2001.

(2) Includes Dain Rauscher Wessels for both periods and Tucker Anthony Sutro in 2002 only.

(3) Represents non-interest expense of RBC Centura (now includes Eagle Banc shares, RBC Mortgage for the purposes of this discussion and analysis and what was previously SFNB), RBC Liberty Insurance and RBC Dain Rauscher (includes Tucker Anthony Sutro) including goodwill amortization expense of $102 million in 2001 (nil in 2002), but excluding retention compensation costs and Dain Rauscher Wessels, which was integrated into RBC Capital Markets in early 2002.

n.m. not meaningful.

Outlook

In 2003, we expect to grow operating expenses at a lower rate than operating revenues.

TABLE 14 Non-interest expense

(C$ millions, except percentage amounts)	2002	2001	2000	2002 vs 2001 Increase (decrease)	
Human resources					
Salaries	**$ 3,189**	$2,725	$ 2,319	**$ 464**	**17%**
Variable compensation	**2,095**	2,056	1,839	**39**	**2**
Acquisition related retention compensation	**158**	176	—	**(18)**	**(10)**
Benefits	**794**	694	485	**100**	**14**
SARs	**27**	23	52	**4**	**17**
	6,263	5,674	4,695	**589**	**10**
Occupancy					
Net premises rent	**587**	553	384	**34**	**6**
Premises repairs and maintenance	**70**	55	68	**15**	**27**
Depreciation	**103**	91	81	**12**	**13**
Property taxes	**11**	6	15	**5**	**83**
Energy	**17**	11	22	**6**	**55**
	788	716	570	**72**	**10**
Equipment					
Office and computer rental and maintenance	**467**	375	376	**92**	**25**
Depreciation	**285**	296	288	**(11)**	**(4)**
	752	671	664	**81**	**12**
Communications					
Telecommunication	**350**	283	225	**67**	**24**
Marketing and public relations	**211**	180	173	**31**	**17**
Postage and courier	**121**	108	170	**13**	**12**
Stationery and printing	**108**	108	127	**—**	**—**
	790	679	695	**111**	**16**
Professional fees	**419**	390	267	**29**	**7**
Amortization of goodwill	**—**	252	80	**(252)**	**n.m.**
Amortization of other intangibles	**72**	36	11	**36**	**100**
Other					
Business and capital taxes	**129**	171	134	**(42)**	**(25)**
Travel and relocation	**144**	121	85	**23**	**19**
Employee training	**46**	43	38	**3**	**7**
Donations	**41**	35	26	**6**	**17**
Other	**800**	762	363	**38**	**5**
	1,160	1,132	646	**28**	**2**
Total core	**10,244**	9,550	7,628	**694**	**7**
Special items (1)	**—**	91	—	**(91)**	**n.m.**
Total	**$10,244**	$9,641	$ 7,628	**$ 603**	**6%**

(1) Special items in 2001 are described in Table 6 on page 27. There were no special items for 2000 and 2002.

n.m. not meaningful

Continuing our focus on cost control

The cost control initiatives undertaken in 2002 and in prior years are continuing to yield favourable results as reflected in the 5% decline in operating expenses, excluding recent U.S. acquisitions, shown in Table 13.

RBC Banking surpassed its stated objective of no non-interest expense growth in 2002, reducing non-interest expense by $107 million or 3%, excluding recent U.S. acquisitions. Its success is due to favourable results from a number of initiatives, including the following.

Increasing focus on fraud prevention. This led to over $50 million of savings realized this year.

Eliminating duplication and other process inefficiencies. As the result of integrating the credit card business into RBC Royal Bank's product and sales structure, over $10 million in cost savings were realized during 2002.

Integration of certain functions of SFNB, RBC Builder Finance and RBC Mortgage into RBC Centura. The successful integration of certain functions resulted in the realization of 100% of the three-year cost savings target of US$70 million, nearly two years ahead of schedule.

Integration of certain functions of RBC Centura into RBC Royal Bank. A portion of RBC Centura call centre services has been reallocated to the RBC Royal Bank call centres in Canada, whereby over half of RBC Centura inbound calls are now handled by call centres in Canada. RBC Centura is also expecting to realize over $7 million of cost savings in 2003 from the integration of certain operations of Eagle Bancshares.

Moving into 2003, RBC Banking is developing a common business framework enabled by e-technologies. We believe that this streamlined model will drive transformational cost reductions by providing standardized and flexible solutions across segments, channels and products. This initiative is expected to generate cost savings commencing in 2004.

During 2002, RBC Insurance realized cost savings by insourcing the provision of technology and infrastructure support to the RBC Systems & Technology group and by outsourcing its payroll function to an external payroll service provider. Also, RBC Liberty Insurance completed the migration and consolidation of the business insurance software and out-sourcing assets acquired from Genelco Incorporated, resulting in cost eliminations. RBC Liberty Insurance is also in the process of migrating to the desktop and server operating environments used by the rest of our enterprise. These changes will result in lower costs and will leverage best practices.

RBC Investments' cost-cutting program, initiated in 2001 to offset the effects of market weakness, will continue into 2003. This segment continues to seek ways to permanently reduce non-interest expense. For example, by working with the Institutional & Investor Services unit of RBC Global Services, RBC Global Private Banking was able to realize cost savings through the sourcing of its fund management processing.

RBC Dain Rauscher achieved cost savings from the continued integration of Tucker Anthony Sutro. Cost savings are being realized through a number of initiatives, including reducing overlapping positions and leveraging scale opportunities that already exist in RBC Dain Rauscher's platform. RBC Dain Rauscher also achieved cost savings through the rationalization of parts of its business in response to poor market conditions. To date, cost savings realized from these initiatives have exceeded US$30 million. Cost savings pertaining to the completion of the integration of Tucker Anthony Sutro into RBC Dain Rauscher are expected to be another US$30 million in 2003.

RBC Capital Markets maintained a focused cost control effort in 2002 in response to the continued weak market conditions. Expense reductions were achieved through the execution of a number of initiatives including continued integration of Capital Market Services businesses in Canada and the U.S., targeted reductions in costs associated with the management of our loan portfolio, technology support and technology capital expenditures. In 2003, RBC Capital Markets will continue its focus on cost control.

RBC Global Services is a scale business with relatively high fixed costs. To achieve cost savings, this segment is focusing on improving operational efficiency by increasing revenue to achieve economies of scale and through continued improvements in its technology infrastructure. Revenue increases will be achieved through organic revenue growth and targeted acquisitions. Acquisitions will provide opportunities for cost savings through integration.

In addition to each platform undertaking its own cost containment initiatives, we have an E^2 (efficiency and effectiveness) effort underway for RBC Financial Group. The primary thrust of the E^2 initiative is to eliminate duplication between platforms and to identify centres of expertise that can be leveraged to enhance operational efficiency and revenue growth. To date, this initiative has identified over 55 projects that could result in cost savings and additional revenue.

TABLE 15 Taxes

(C$ millions, except percentage amounts)	2002	2001	2000
Income taxes			
Consolidated statement of income	**$ 1,415**	$ 1,350	$ 1,412
Taxable equivalent adjustment	**40**	32	28
	1,455	1,382	1,440
Other taxes			
Goods and services and sales taxes	**224**	221	208
Payroll taxes	**245**	237	188
Provincial capital taxes	**107**	146	108
Property taxes (1)	**11**	6	16
Business taxes	**22**	25	26
Insurance premium taxes	**22**	21	11
	631	656	557
Total	**$ 2,086**	$ 2,038	$ 1,997
Effective income tax rate (2)	**32.0%**	34.7%	38.8%
Effective total tax rate (3)	**41.0%**	44.5%	47.3%

(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 15 above were $2,086 million in 2002, comprising income taxes of $1,455 million (including a taxable equivalent adjustment) and other taxes of $631 million. Income taxes increased by $73 million from 2001, largely due to higher net income before tax. Other taxes declined by $25 million largely as a result of a decrease in the amount of provincial capital taxes paid.

As shown above, the effective income tax rate decreased from 34.7% in 2001 to 32.0% in 2002, reflecting a reduction in federal and provincial tax rates in Canada.

In addition to the income and other taxes reported in the consolidated statement of income, the bank recorded income tax benefits of $7 million in 2002 ($451 million in 2001) in shareholders' equity as shown in Note 14 on page 87.

Financial priority: Strong credit quality

Highlights

- Business and government loans and acceptances decreased from 42% of total loans and acceptances in 2001 to 39%
- Nonaccrual loans down 7%
- Nonaccrual loans to total loans and acceptances down from 1.36% to 1.27%
- Provision for credit losses stable at $1.1 billion
- Allocated specific provision ratio of .50%, down slightly from .52%
- Net charge-offs ratio of .71%, up from .55%
- Allowance for credit losses down slightly from $2.4 billion to $2.3 billion

Loan portfolio

During 2002, the loan portfolio performed well in a very challenging environment, reflecting changes we have made in credit practices over the last two years. In 2002, we continued our strategy of moving towards a lower-risk portfolio mix, which includes more residential mortgage loans and less corporate loans, which are riskier and more capital intensive. As shown in the charts below, business and government loans and acceptances decreased to 39% of total loans and acceptances in 2002 from 48% in 1998. This compares to a ratio of 42% in 2001.

We buy credit protection to offset losses that may result from the potential credit deterioration of particular counterparties and to manage exposure. As at October 31, 2002, we had $1 billion of credit protection in place including $.2 billion in each of the telecommunication, energy and financial services sectors.

The portion of our business and government credit exposure rated investment grade increased slightly during 2002 from 69% to 70%. Business and government includes our small business portfolio, which is generally rated lower than larger businesses.

Table 16 on page 47 and Table 21 on page 52 provide a detailed breakdown of loans and acceptances. Business and government loans and acceptances declined $5.6 billion in Canada and $1.4 billion internationally, with a $2.3 billion reduction outside of the U.S., partially offset by a $.9 billion increase in the U.S. The overall decrease is driven by the ongoing business strategy of exiting non-core client relationships in RBC Capital Markets. We do not engage in subprime lending in the U.S.

In Canada, there were no significant increases in any of the sectors other than the automotive sector where the increase was due to the reclassification of approximately $.8 billion of loans from transportation and environment. The largest reduction was in energy ($1.4 billion).

In the U.S., portfolio increases took place in energy ($1.1 billion) and commercial real estate ($.8 billion), partially offset by a decrease in industrial products ($.5 billion). The largest share of the increase in the energy sector was in power generation. The commercial real estate increase includes $.2 billion of loans acquired as a result of the Eagle Bancshares acquisition.

Outside North America, loans decreased by $2.3 billion, including reductions in financial services, energy and industrial products. The overall reductions reflect focused de-marketing of Asia-Pacific loans, including Japan.

Telecommunication loans outstanding globally decreased by 22% to $1.7 billion at October 31, 2002. Non-investment grade telecommunication loans were $.9 billion, down from 59% of the portfolio to 49%. Currently seven telecommunication loans are classified as nonaccrual, compared to six at October 31, 2001. Approximately 90% of the original nonaccrual amount has been charged-off or specifically provided for. This results in a nonaccrual amount of $41 million, net of allowances, at the end of 2002.

At October 31, 2002, loans outstanding to the power generation sub-sector within the energy sector were $2.0 billion, of which 48% were investment grade. The nonaccrual amount of $74 million (net of allowances) related to three accounts.

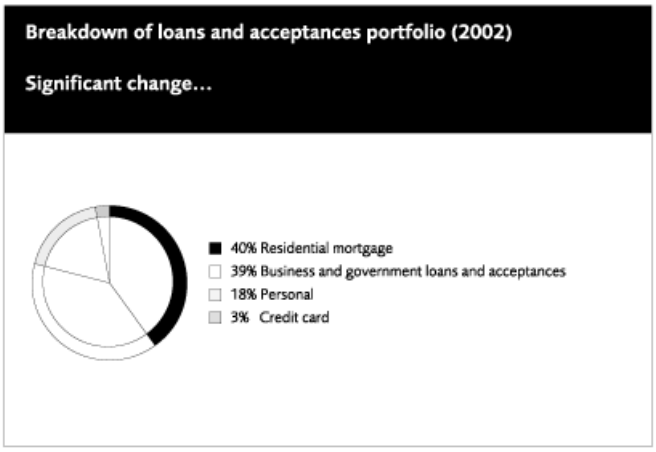
For additional discussion of loans, see the Balance sheet and capital management section on page 58.

Nonaccrual loans

Loans are generally classified as nonaccrual, meaning the accrual of interest is discontinued, under conditions described in Note 1 on page 72.

As indicated in Table 17 on page 48, nonaccrual loans decreased $177 million during the year to $2,288 million. This decline reflects a slowdown in net additions ($1,280 million versus $1,912 million in 2001) and increased charge-offs ($1,457 million versus $1,125 million in 2001).

Nonaccrual loans decreased in both the consumer and the business and government loan portfolios.


Breakdown of loans and acceptances portfolio (2002)
Significant change...
40% Residential mortgage
39% Business and government loans and acceptances
18% Personal
3% Credit card


Breakdown of loans and acceptances portfolio (1998)
in portfolio mix
36% Residential mortgage
48% Business and government loans and acceptances
15% Personal
1% Credit card

In the consumer portfolio, nonaccrual loans decreased by $67 million to $437 million. Canada saw a large decrease ($75 million), resulting from overall portfolio improvement due to recent initiatives such as the implementation of an advanced risk modeling technology in order to optimize risk-reward and the optimization of credit policies and procedures (including the implementation of new origination models and new credit management and collection procedures).

Business and government nonaccrual loans fell $110 million to $1,851 million. This consisted of reductions in Canada ($276 million) and the U.S. ($50 million), offsetting increases in other international ($216 million). Nonaccrual loans in the Canadian transportation and environment sector fell $136 million due to a significant single name returning to performing status. There were also decreases in commercial real estate loans ($72 million) and small business loans ($56 million). The U.S. saw a net decrease resulting from reductions in the telecommunication sector ($195 million), driven by significant charge-offs. This decrease was partially offset by an increase in the energy and media and cable sectors. Each of these two sectors was impacted by single individual accounts. New nonaccrual loans in Argentina contributed to an increase in other international.

Nonaccrual loans as a percentage of related loans and acceptances (before deducting the allowance for loan losses) decreased from 1.36% to 1.27%.

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 $1,065 million in 2002, down $54 million from 2001, as shown in Table 18 on page 49.

We acquire credit protection on portions of our portfolio by entering into credit derivative contracts. We also provide protection through credit derivatives to various counterparties. This year's provision for credit losses included amounts related to a telecommunication account and an energy account that were classified as nonaccrual and were partially offset by gains of $102 million and $13 million, respectively, on related credit derivatives. These amounts were recorded in non-interest revenues in accordance with FAS 133. We had also provided credit protection through derivatives to counterparties with respect to a large U.S. telecommunication company, which defaulted during the year, leading to a mark-to-market loss of $69 million.

In the consumer portfolio, the allocated specific provision increased by $25 million to $430 million. Business and government loans showed a slight decrease of $9 million to $635 million. This comprises decreases in Canada of $166 million, partially offset by increases in the U.S. of $52 million and other international of $105 million. The decreases in Canada are spread across various industries. In the U.S., there was an increase in the energy and information technology sectors, partially offset by decreases in commercial real estate and telecommunication. The increase in U.S. energy ($107 million) is due to a single account.

The allocated specific provision amounted to .50% (.48% net of effect of credit derivatives) of average loans, acceptances and reverse repurchase agreements, down from .52% in 2001. Under Canadian GAAP, the ratio was .51%, down from .53% in 2001 and compared to a 2002 objective of .45–.55%.

Outlook

In light of the continued economic and global political uncertainty that we face, we expect a specific provision for credit losses ratio of .45–.55% (using Canadian GAAP) in 2003, which is unchanged from our 2002 objective.

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 to take into account 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.

The allowance for credit losses comprises three components — allocated specific, allocated general and unallocated — as described in Note 1 on page 73.

As shown in Table 19 on page 50, the allowance for credit losses decreased $78 million or 3% between 2001 and 2002 to $2,314 million. During the year, charge-offs, net of recoveries, were $1,259 million or .71% of average loans and acceptances, versus $940 million or .55% a year ago. The allocated country risk allowance of $31 million has been eliminated as the result of the charge-off of the related fully provisioned loans.

In 2000, we entered into an agreement with an AAA rated reinsurer to provide capital if exceptional losses occur in the bank's loan portfolio. During the year, the reinsurer was downgraded from AAA. Based on this development and an internal review by management, the agreement was not renewed for fiscal 2003.

Credit risk concentrations

Concentration risk exists if a number of clients are engaged in similar activities, are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic,

political or other conditions. Strategies to minimize concentration risk are discussed further under portfolio diversification in the Risk management section on page 55. In terms of geographic risk, Table 16 on page 47 shows that the largest domestic geographic exposure is in Ontario, comprising 35% of total loans and acceptances. Internationally, the largest concentration is in the U.S. where we have 16% of our total loans and acceptances.

As shown in Table 16 on page 47, excluding small business, the largest sector concentrations are in financial services, commercial real estate and energy, with 5%, 4% and 4% of loans and acceptances, respectively.

Table 20 on page 51 illustrates geographic risk concentrations of contractual amounts with clients outside of Canada. Only 11% of contractual amounts with clients are outside Canada and the U.S.

TABLE 16 Loans and acceptances (1)

(C$ millions, except percentage amounts)	2002	2001	2000	1999	1998	2002	1998
Canada							
Atlantic provinces (2)	**$ 9,770**	$ 9,654	$ 9,690	$ 8,840	$ 8,052	**5.4%**	5.1%
Quebec	**15,190**	13,863	16,191	14,936	14,066	**8.5**	8.9
Ontario	**63,627**	70,164	60,999	54,724	51,977	**35.5**	33.0
Prairie provinces (3)	**26,989**	25,192	29,402	25,521	23,288	**15.0**	14.8
British Columbia	**23,367**	22,696	25,118	23,141	22,295	**13.0**	14.2
Total Canada	**138,943**	141,569	141,400	127,162	119,678	**77.4**	76.0
Consumer							
Residential mortgage	**67,700**	64,066	61,444	58,524	55,836	**37.7**	35.5
Personal	**25,918**	27,202	27,207	24,353	21,814	**14.5**	13.9
Credit card	**4,740**	4,110	4,666	2,666	1,945	**2.6**	1.2
	98,358	95,378	93,317	85,543	79,595	**54.8**	50.6
Business and government loans and acceptances							
Small business (4)	**9,470**	9,788	11,701	10,334	8,452	**5.3**	5.4
Agriculture	**4,427**	4,758	4,931	4,217	3,851	**2.5**	2.5
Financial services	**3,015**	3,010	2,218	1,567	1,718	**1.7**	1.1
Energy	**2,911**	4,293	3,754	3,350	3,442	**1.6**	2.2
Commercial mortgages	**2,468**	2,635	2,961	2,635	2,434	**1.4**	1.5
Commercial real estate	**2,393**	2,325	2,594	2,400	2,523	**1.3**	1.6
Consumer goods	**2,238**	2,447	2,874	2,086	2,802	**1.2**	1.8
Industrial products	**1,569**	2,174	2,470	2,301	2,241	**.9**	1.4
Transportation and environment (5)	**1,450**	2,138	1,519	1,562	1,392	**.8**	.9
Automotive (5)	**1,370**	864	673	611	698	**.8**	.4
Government	**1,039**	1,597	1,385	2,105	1,951	**.6**	1.2
Media and cable (6)	**994**	1,510	1,120	1,135	959	**.5**	.6
Forest products	**954**	1,275	1,362	1,151	1,728	**.5**	1.1
Telecommunication	**487**	677	1,008	525	361	**.3**	.2
Mining and metals	**361**	636	897	845	750	**.2**	.5
Information technology	**191**	203	210	191	204	**.1**	.1
Other	**5,248**	5,861	6,406	4,604	4,577	**2.9**	2.9
	40,585	46,191	48,083	41,619	40,083	**22.6**	25.4
Total Canada	**138,943**	141,569	141,400	127,162	119,678	**77.4**	76.0
International							
United States	**29,192**	25,944	13,415	13,060	13,717	**16.3**	8.7
Europe, Middle East and Africa	**6,340**	7,918	6,544	6,617	13,174	**3.5**	8.4
Caribbean	**2,018**	1,856	2,059	1,502	1,573	**1.1**	1.0
Latin America	**1,400**	1,680	1,842	2,309	3,875	**.8**	2.5
Asia	**1,004**	1,328	1,781	2,417	4,550	**.5**	2.9
Australia and New Zealand	**677**	805	771	983	825	**.4**	.5
Total international	**40,631**	39,531	26,412	26,888	37,714	**22.6**	24.0
Consumer							
Residential mortgage	**5,142**	3,378	1,540	718	632	**2.9**	.4
Personal	**6,038**	5,309	812	902	947	**3.3**	.6
Credit card	**174**	173	—	—	—	**.1**	—
	11,354	8,860	2,352	1,620	1,579	**6.3**	1.0
Business and government loans and acceptances							
Financial services	**6,542**	9,347	7,912	6,937	10,896	**3.6**	6.9
Energy	**3,731**	2,994	3,051	3,887	4,702	**2.1**	3.0
Commercial real estate	**5,124**	4,082	271	464	862	**2.9**	.6
Consumer goods	**1,383**	1,699	1,111	1,411	2,756	**.8**	1.8
Industrial products	**1,199**	2,116	1,749	1,325	1,881	**.7**	1.2
Transportation and environment	**2,442**	1,571	1,487	1,975	2,296	**1.4**	1.5
Automotive	**411**	527	513	878	2,264	**.2**	1.4

Government	**130**	128	167	773	492	**.1**	.3
Media and cable (6)	**1,321**	1,380	2,033	1,909	2,270	**.7**	1.4
Forest products	**417**	385	468	549	609	**.2**	.4
Telecommunication	**1,246**	1,558	2,244	1,206	1,756	**.7**	1.1
Mining and metals	**1,192**	1,071	901	881	1,323	**.6**	.8
Information technology	**180**	396	433	709	1,212	**.1**	.8
Other	**3,959**	3,417	1,720	2,364	2,816	**2.2**	1.8
	29,277	30,671	24,060	25,268	36,135	**16.3**	23.0
Total international	**40,631**	39,531	26,412	26,888	37,714	**22.6**	24.0
Total loans and acceptances	**179,574**	181,100	167,812	154,050	157,392	**100%**	100%
Allowance for loan losses	**(2,203)**	(2,278)	(1,871)	(1,884)	(2,026)		
Total	**$177,371**	$178,822	$165,941	$152,166	$155,366		

(1) Based on residence of borrower.

(2) Includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.

(3) Includes Manitoba, Saskatchewan and Alberta.

(4) Small business loans in 2002 comprises the following industries: commercial real estate of $1,737 million (2001 — $1,788 million); consumer goods of $1,583 million (2001 — $1,665 million); industrial products of $887 million (2001 — $916 million); transportation and environment of $552 million (2001 — $605 million); automotive of $377 million (2001 — $434 million); forest products of $278 million (2001 — $296 million); energy of $125 million (2001 — $157 million); information technology of $93 million (2001 — $133 million); mining and metals of $69 million (2001 — n.a.); financial services of $132 million (2001 — $96 million); media and cable of $77 million (2001 — $84 million); telecommunication of $34 million (2001 — $45 million); and other of $3,526 million (2001 — $3,569 million).

(5) Commencing in 2002, certain amounts were reclassified from transportation and environmental sector grouping to the automotive group.

(6) Includes cable loans of $267 million in Canada in 2002 (2001 — $330 million; 2000 — $262 million; 1999 — $169 million; 1998 — $164 million) and $634 million internationally in 2002 (2001 — $625 million; 2000 — $1,321 million; 1999 — $850 million; 1998 — $1,221 million).

TABLE 17 Nonaccrual loans

(C$ millions, except percentage amounts)	2002	2001	2000	1999	1998
Canada					
Atlantic provinces (1)	**$ 107**	$ 124	$ 115	$ 77	$ 60
Quebec	**90**	282	198	259	261
Ontario	**471**	621	572	438	543
Prairie provinces (2)	**177**	143	129	198	161
British Columbia	**427**	453	355	415	485
Total Canada	**1,272**	1,623	1,369	1,387	1,510
Consumer					
Residential mortgage	**102**	142	185	173	166
Personal	**275**	310	247	236	217
	377	452	432	409	383
Business and government					
Small business (3)	**205**	261	248	232	130
Agriculture (3)	**141**	111	53	62	47
Financial services	**—**	7	20	16	121
Energy	**1**	27	—	38	6
Commercial mortgages	**17**	22	16	25	22
Commercial real estate	**23**	95	90	186	182
Consumer goods	**47**	11	37	43	55
Industrial products	**23**	45	28	19	25
Transportation and environment	**138**	274	185	21	13
Automotive	**10**	18	5	1	1
Media and cable	**18**	43	36	42	29
Forest products	**199**	195	184	233	383
Telecommunication	**20**	—	—	2	1
Mining and metals	**—**	1	—	—	—
Information technology	**6**	11	8	13	13
Other	**47**	50	27	45	99
	895	1,171	937	978	1,127
Total Canada	**1,272**	1,623	1,369	1,387	1,510
International					
United States	**584**	626	145	41	18
Latin America	**217**	14	9	10	4
Europe, Middle East and Africa	**115**	79	46	58	59
Caribbean	**71**	55	48	47	62
Australia and New Zealand	**26**	23	—	—	—
Asia	**3**	14	33	127	308
	1,016	811	281	283	451
LDCs	—	31	28	34	40
Total international	**1,016**	842	309	317	491
Consumer					
Residential mortgage	**29**	37	14	14	15
Personal	**31**	15	—	—	—
	60	52	14	14	15
Business and government					
Financial services	**77**	83	41	89	90
Energy	**242**	3	14	23	31
Commercial real estate	**75**	81	4	5	12
Consumer goods	**10**	19	2	18	119
Industrial products	**30**	10	83	38	76
Transportation and environment	**68**	91	56	—	1
Automotive	**29**	33	—	5	43
Media and cable(4)	**56**	—	—	—	—
Telecommunication	**77**	272	—	—	—
Mining and metals	**128**	40	11	11	8

Information technology	**48**	76	—	—	—
Other	**116**	82	84	114	96
	956	790	295	303	476
Total international	**1,016**	842	309	317	491
Total (5),(6)	**$ 2,288**	$ 2,465	$ 1,678	$ 1,704	$ 2,001

(1) Includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.

(2) Includes Manitoba, Saskatchewan and Alberta.

(3) Includes government guaranteed portions of nonaccrual loans of $64 million in small business in 2002 (2001 — $95 million; 2000 — $101 million; 1999 — $79 million) and $10 million in agriculture (2001 — $6 million; 2000 — $6 million; 1999 — $5 million). Prior to 1999, only the non-guaranteed portion was considered nonaccrual.

(4) Consists entirely of cable nonaccrual loans.

(5) Includes foreclosed assets of $32 million in 2002 (2001 — $37 million; 2000 — $16 million; 1999 — $26 million; 1998 — $28 million).

(6) Past due loans greater than 90 days not included in nonaccrual loans was $217 million in 2002 (2001 – $245 million).

TABLE 18 Provision for credit losses

(C$ millions, except percentage amounts)	2002	2001	2000	1999	1998
Canada					
Atlantic provinces (1)	**$ 59**	$ 63	$ 58	$ 32	$ 35
Quebec	**(5)**	43	22	71	63
Ontario	**330**	398	342	52	144
Prairie provinces (2)	**86**	81	64	95	53
British Columbia	**59**	104	40	192	132
Total Canada	**529**	689	526	442	427
Consumer					
Residential mortgage	**3**	8	—	4	9
Personal	**266**	265	301	172	171
Credit card	**135**	125	102	55	28
	404	398	403	231	208
Business and government					
Small business	**110**	164	105	113	48
Agriculture	**22**	20	4	2	4
Financial services	**(27)**	(9)	—	5	113
Energy	**4**	17	(8)	12	1
Commercial mortgages	**(5)**	7	2	8	6
Commercial real estate	**(15)**	15	(17)	9	(30)
Consumer goods	**19**	2	7	11	23
Industrial products	**(7)**	14	2	(10)	(6)
Transportation and environment	**(19)**	13	56	7	(27)
Automotive	**—**	17	—	—	—
Media and cable	**(7)**	13	12	8	4
Forest products	**4**	7	(36)	81	76
Telecommunication	**59**	—	(1)	(32)	(29)
Mining and metals	**(1)**	—	(1)	1	—
Information technology	**3**	3	8	8	5
Other	**(15)**	8	(10)	(12)	31
	125	291	123	211	219
Total Canada	**529**	689	526	442	427
International					
United States	**440**	377	99	45	(7)
Latin America	**57**	5	2	2	(2)
Europe, Middle East and Africa	**38**	(1)	(9)	21	10
Caribbean	**6**	(6)	3	—	3
Australia and New Zealand	**5**	4	—	—	—
Asia	**(10)**	(19)	(50)	20	124
Total international	**536**	360	45	88	128
Consumer					
Residential mortgage	**7**	—	—	1	1
Personal	**15**	5	—	—	—
Credit card	**4**	2	—	—	—
	26	7	—	1	1
Business and government					
Financial services	**21**	(3)	(21)	2	36
Energy	**141**	(8)	(2)	—	21
Commercial real estate	**4**	65	1	2	(2)
Consumer goods	**(2)**	—	(7)	(10)	(5)
Industrial products	**5**	3	34	31	9
Transportation and environment	**21**	8	42	**—**	(1)
Automotive	**1**	7	(8)	(2)	29
Media and cable	**—**	3	—	—	—
Telecommunication	**202**	272	—	—	—
Mining and metals	**28**	—	2	15	—
Information technology	**41**	7	—	3	—

Other	**48**	(1)	4	46	40
	510	353	45	87	127
Total international	**536**	360	45	88	128
Allocated specific provision	**1,065**	1,049	571	530	555
Allocated country risk provision	**—**	—	—	—	(80)
Allocated general provision (3)	**(22)**	205	73	n.a.	n.a.
Total allocated provision (3)	**1,043**	1,254	644	n.a.	n.a.
Unallocated provision (3)	**22**	(135)	47	n.a.	n.a.
Total	**$ 1,065**	$ 1,119	$ 691	$ 760	$ 575

(1) Includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.

(2) Includes Manitoba, Saskatchewan and Alberta.

(3) The allocated general provision and the unallocated provision together totalled $230 million in 1999 and $100 million in 1998. These were not separated into the allocated general and unallocated components.

TABLE 19 Allowance for credit losses

(C$ millions, except percentage amounts)	2002	2001	2000	1999	1998
Allowance at beginning of year	**$ 2,392**	$ 1,975	$1,900	$ 2,066	$2,118
Provision for credit losses	**1,065**	1,119	691	760	575
Charge-offs					
Canada					
Residential mortgage	**(11)**	(15)	(11)	(14)	(17)
Personal	**(381)**	(394)	(372)	(236)	(163)
Credit card	**(172)**	(169)	(150)	(65)	(52)
Business and government	**(330)**	(296)	(225)	(524)	(250)
	(894)	(874)	(758)	(839)	(482)
International					
Residential mortgage	**(1)**	(9)	—	—	—
Personal	**(17)**	(7)	—	—	—
Credit card	**(6)**	(2)	—	—	—
Business and government	**(506)**	(233)	(81)	(229)	(29)
LDC exposures	**(33)**	—	—	(4)	(325)
	(563)	(251)	(81)	(233)	(354)
	(1,457)	(1,125)	(839)	(1,072)	(836)
Recoveries					
Canada					
Residential mortgage	**—**	—	—	2	6
Personal	**68**	66	44	31	26
Credit card	**37**	44	48	10	24
Business and government	**72**	58	48	66	80
	177	168	140	109	136
International					
Personal	**2**	1	—	—	—
Credit card	**1**	—	—	—	—
Business and government	**18**	16	22	5	8
	21	17	22	5	8
	198	185	162	114	144
Net charge-offs	**(1,259)**	(940)	(677)	(958)	(692)
Acquisition of Centura Banks	**—**	157	—	—	—
Acquisition of Eagle Bancshares	**18**	—	—	—	—
Adjustments	**98**	81	61	32	65
Allowance at end of year	**$ 2,314**	$ 2,392	$1,975	$ 1,900	$2,066
Allocation of allowance (1)					
Canada					
Residential mortgage	**$ 35**	$ 45	$ 46	$ 53	$ 50
Personal	**429**	447	403	344	156
Credit card	**147**	147	88	60	—
Business and government	**711**	791	664	748	604
	1,322	1,430	1,201	1,205	810
International					
Residential mortgage	**6**	4	11	9	7
Personal	**36**	33	—	—	—
Credit card	**5**	5	—	—	—
Business and government	**583**	581	322	380	359
	630	623	333	389	366
Allocated allowance for loan losses (2)	**1,952**	2,053	1,534	1,594	n.a.

Unallocated allowance for loan losses (2)	**251**	225	337	290	n.a.
Total allowance for loan losses	**2,203**	2,278	1,871	1,884	2,026
Allowance for off-balance sheet and other items (3)	**109**	109	98	—	—
Allowance for tax-exempt securities	**2**	5	6	16	40
Total allowance for credit losses	**$ 2,314**	$ 2,392	$1,975	$ 1,900	$2,066
Percentage of loans and acceptances to total loans and acceptances (4)					
Canada					
Residential mortgage	**38%**	35%	37%	38%	36%
Personal	**14**	15	16	16	14
Credit card	**3**	2	3	2	1
Business and government	**21**	24	28	28	28
	76	76	84	84	79
International	**24**	24	16	16	21
Total	**100%**	100%	100%	100%	100%

(1) As a result of a change in methodology in 1999, the allowance for loan losses in 2002, 2001, 2000 and 1999 includes amounts for the allocated general allowance, which have been allocated to loan categories. These amounts total $1,060 million (2001 — $1,076 million; 2000 — $765 million; 1999 — $790 million) and have been allocated as follows: for Canada — residential mortgage $20 million (2001 — $21 million; 2000 — $18 million; 1999 — $11 million), personal $266 million (2001 — $266 million; 2000 — $207 million; 1999 — $174 million), credit card $147 million (2001 — $147 million; 2000 — $88 million; 1999 — $60 million), business and government $386 million (2001 — $385 million; 2000 — $321 million; 1999 — $370 million), and for International — residential mortgage $3 million (2001 — $2 million; 2000 and 1999 — nil), personal $22 million (2001 — $26 million; 2000 and 1999 — nil), credit card $5 million (2001 — $5 million; 2000 and 1999 — nil), business and government $211 million (2001 — $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. 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) Loans and acceptances in Canada include all loans and acceptances booked in Canada, regardless of the currency or residence of the borrower.

TABLE 20 Foreign outstandings (1)

(C$ millions, except percentage amounts)	2002	% of total assets	2001	% of total assets	2000	% of total assets
United States — Banks	**$ 5,838**		$ 7,186		$ 5,462	
Government	**3,257**		3,834		889	
Other	**62,210**		49,172		30,034	
	71,305	**18.67%**	60,192	16.61%	36,385	12.38%
Western Europe						
United Kingdom — Banks	**7,179**		6,275		4,347	
Government	**295**		153		26	
Other	**5,719**		5,256		5,791	
	13,193	**3.45**	11,684	3.22	10,164	3.46
France — Banks	**2,061**		2,378		2,379	
Government	**86**		68		45	
Other	**831**		1,176		1,552	
	2,978	**.78**	3,622	1.00	3,976	1.35
Germany — Banks	**5,344**		5,952		5,471	
Government	**318**		173		1	
Other	**381**		559		643	
	6,043	**1.58**	6,684	1.84	6,115	2.08
Netherlands	**2,271**	**.59**	2,218	.61	1,300	.44
Switzerland	**1,714**	**.45**	1,362	.38	1,687	.57
Other	**5,658**	**1.49**	5,244	1.45	4,305	1.47
	31,857	**8.34**	30,814	8.50	27,547	9.37
Central/Eastern Europe, Middle East and Africa	**247**	**.06**	469	.13	645	.22
Latin America						
Argentina	**146**	**.04**	193	.06	324	.11
Brazil	**38**	**.01**	71	.02	75	.02
Chile	**800**	**.21**	836	.23	751	.26
Mexico	**493**	**.13**	696	.19	343	.12
Other	**42**	**.01**	174	.05	212	.07
	1,519	**.40**	1,970	.55	1,705	.58
Caribbean						
Bahamas	**1,453**	**.38**	1,520	.42	1,549	.53
Other	**485**	**.13**	1,902	.52	1,952	.66
	1,938	**.51**	3,422	.94	3,501	1.19
Asia						
Japan — Banks	**321**		53		634	
Government	**2,426**		1,663		1,599	
Other	**64**		988		1,000	
	2,811	**.74**	2,704	.75	3,233	1.10
Singapore	**229**	**.06**	217	.06	336	.11
South Korea	**405**	**.11**	449	.12	338	.11
Other	**38**	**.01**	145	.04	188	.07
	3,483	**.92**	3,515	.97	4,095	1.39
Australia and New Zealand	**2,842**	**.74**	2,335	.64	1,775	.60
Allowance for loan losses (2)	**(760)**	**(.20)**	(728)	(.20)	(441)	(.15)
Total	**$112,431**	**29.44%**	$101,989	28.14%	$75,212	25.58%

(1) Includes contractual amounts with clients in a foreign country related to: loans, accrued interest, acceptances, interest-bearing deposits with 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 international component of the allocated specific, allocated general and unallocated allowance. For years prior to 2002, the allowance for loan losses also includes the allocated country risk allowance.

TABLE 21 U.S. loans and acceptances and loan quality information (1)

(C$ millions)	Loan balance			Nonaccrual loans			Provision for credit losses		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Consumer									
Residential mortgage	**$ 4,353**	$ 2,666	$ 845	**$ 16**	$ 24	$ —	**$ 7**	$ 8	$—
Personal	**5,269**	4,621	78	**31**	15	—	**15**	5	—
Credit card	**125**	128	—	**—**	—	—	**4**	2	—
	9,747	7,415	923	**47**	39	—	**26**	15	—
Business and government loans and acceptances									
Financial services	**3,770**	4,104	4,521	**46**	30	—	**11**	7	—
Energy	**2,680**	1,613	1,582	**95**	—	—	**107**	—	—
Commercial real estate	**4,531**	3,773	44	**75**	81	4	**5**	66	2
Consumer goods	**958**	1,172	435	**10**	9	—	**4**	2	—
Industrial products	**974**	1,513	1,107	**30**	8	68	**8**	3	40
Transportation and environmental	**484**	788	469	**36**	48	56	**5**	(4)	42
Automotive	**409**	408	221	**29**	33	—	**1**	6	—
Government	**19**	23	—	**—**	—	—	**—**	—	—
Media and cable (2)	**1,107**	1,038	1,782	**56**	—	—	**—**	3	—
Forest products	**223**	98	181	**—**	—	—	**—**	—	—
Telecommunication	**689**	835	1,131	**77**	272	—	**202**	272	—
Mining and metals	**70**	45	104	**—**	—	—	**—**	—	—
Information technology	**177**	299	374	**48**	76	—	**41**	7	—
Other	**3,354**	2,820	541	**35**	30	17	**30**	—	15
	19,445	18,529	12,492	**537**	587	145	**414**	362	99
	$29,192	$25,944	$13,415	**$584**	$626	$145	**$440**	$377	$99

(1) Based on residence of the borrower.

(2) Includes cable loans of $522 million (2001 - $455 million; 2000 - $1,162 million) and cable gross nonaccrual loans of $56 million in 2002.

TABLE 22 Risk profile

(C$ millions, except percentage amounts)	2002	2001	2000	1999	1998
Nonaccrual loans					
Beginning of year	**$ 2,465**	$ 1,678	$1,704	$ 2,001	$1,819
Net additions	**1,280**	1,912	813	743	628
Charge-offs and adjustments	**(1,457)**	(1,125)	(839)	(1,040)	(446)
End of year	**$ 2,288**	$ 2,465	$1,678	$ 1,704	$2,001
As a % of related loans and acceptances (1)					
Canada					
Residential mortgage	**.15%**	.22%	.30%	.30%	.30%
Personal	**1.06**	1.14	.91	.97	.99
Business and government	**2.36**	2.75	1.97	2.24	2.52
	.93	1.18	.97	1.07	1.21
International	**2.34**	1.95	1.15	1.28	1.49
Total	**1.27%**	1.36%	1.00%	1.11%	1.27%
Allowance for credit losses					
Allocated specific	**$ 894**	$ 951	$ 747	$ 786	$1,176
Allocated country risk	**—**	31	28	34	40
Allocated general (2), (4)	**1,169**	1,185	863	790	n.a.
Total allocated (2)	**2,063**	2,167	1,638	1,610	n.a.
Unallocated (2)	**251**	225	337	290	n.a.

Total	**$ 2,314**	$ 2,392	$1,975	$ 1,900	$2,066
As a % of loans and acceptances	**1.2%**	1.3%	1.1%	1.2%	1.3%
As a % of loans, acceptances and reverse repurchase agreements	**1.0%**	1.0%	1.0%	1.1%	1.1%
As a % of nonaccrual loans (coverage ratio), excluding LDCs	**96%**	93%	112%	112%	103%
Provision for credit losses					
Allocated specific	**$ 1,065**	$ 1,049	$ 571	$ 530	$ 555
Allocated country risk	**—**	—	—	—	(80)
Allocated general (3)	**(22)**	205	73	n.a.	n.a.
Total allocated (3)	**1,043**	1,254	644	n.a.	n.a.
Unallocated (3)	**22**	(135)	47	n.a.	n.a.
Total	**$ 1,065**	$ 1,119	$ 691	$ 760	$ 575
Allocated specific provisions as a % of average loans, acceptances and reverse repurchase agreements	**.50%**	.52%	.31%	.30%	.31%
Provision as a % of average loans, acceptances and reverse repurchase agreements	**.50**	.55	.38	.43	.32
As a % of related average loans and acceptances					
Canada					
Residential mortgage	**—%**	.01%	—%	.01%	.02%
Personal	**1.00**	.94	1.12	.71	.76
Credit card	**3.10**	2.73	2.87	2.39	1.39
Business and government	**.32**	.67	.28	.49	.51
	.39	.50	.39	.35	.35
International	**1.28**	1.08	.18	.31	.37
Total allocated specific provision	**.60%**	.61%	.36%	.34%	.36%
Total provision for credit losses	**.60**	.65	.43	.49	.37
Net charge-offs (excluding LDCs) as a % of average loans and acceptances	**.69%**	.55%	.42%	.61%	.24%
Net charge-offs as a % of average loans and acceptances	**.71%**	.55%	.42%	.62%	.45%

(1) Loans and acceptances in Canada include all loans and acceptances booked in Canada, regardless of the currency or residence of the borrower.

(2) The allocated general and the unallocated amounts totalled $850 million in 1998. These were not separated into the allocated general and unallocated components. The amounts prior to 1999 do not include the allocated general allowance.

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

(4) Includes the allowance for off-balance sheet and other items.

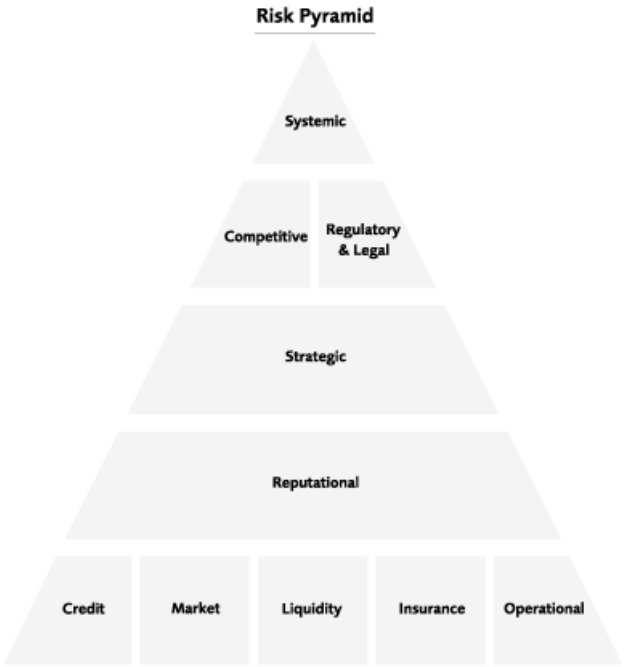
Risk management

Overview

The risk management function strives to build shareholder value through leadership in the strategic management of risk. Priorities include:

- Enhancing communication on risk and risk appetite throughout the organization
- Aligning the risk management function with our business segments
- Investing in our capabilities to better measure, understand and manage risk
- Strengthening the efficiency, accessibility and responsiveness of key risk processes and practices
- Attracting, developing and retaining a team of highly performing professionals

Our business activities expose us to the risks outlined in the risk pyramid below. We use the risk pyramid as the primary tool to identify and assess risk across the organization. It provides a common language for evaluating risk in business reviews, new business, new products, new initiatives, acquisitions or alliances. We pay particular attention to the more controllable risks along the bottom of the pyramid.



- **Credit risk** is the risk of loss due to a counterparty's inability to fulfill its payment obligations. It also refers to a loss in market value due to the deterioration of a counterparty's financial position. A counterparty may be an issuer, debtor, borrower, policyholder, reinsurer or guarantor.
- **Market risk** is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices.
- **Liquidity risk** is the risk that we are unable to generate or obtain sufficient cash or equivalents on a cost-effective basis to meet our commitments as they fall due.
- **Insurance risk**, relative to our insurance platform, is the risk inherent in the development, issuance and administration of insurance policies, and includes product design and pricing risk, claims administration risk, underwriting risk and liability risk.
- **Operational risk** is the risk of direct or indirect loss resulting from inadequate or failed technology, human performance, processes or external events. The impact of operational risk can be financial loss, loss of reputation, loss of competitive position or legal and regulatory proceedings.



An organizational perspective

The cornerstone of effective risk management is a strong risk management culture, supported by numerous strategy and policy development processes, run jointly by risk management professionals and the business segments. This partnership is designed to ensure strategic alignment of business, risk and resource issues.

Risk management professionals work in partnership with the business segments and functional units to identify risks, which are 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 the efficient allocation of capital.

A structure of management and board committees provides oversight of the risk management process.

The Board of Directors and Group Risk Committee

The top level of the organizational perspective risk pyramid on page 53 comprises the Board of Directors, the Conduct Review and Risk Policy Committee and Group Risk Committee. Key responsibilities are to:

- Shape, influence and communicate the organization's risk culture
- Determine and communicate the organization's risk appetite
- Define the organizational structure for Group Risk Management
- Review and approve policies for controlling risk
- Review and monitor the major risks being assumed by, or facing, the organization, providing direction as required
- Ensure there are sufficient and appropriate risk management resources across the organization against the risks being taken

Risk management

The middle level of the organizational perspective risk pyramid on page 53 comprises the Chief Risk Officer, Group Risk Management and the various Risk Committees. The Risk Committees include the Asset/Liability Committee, U.S. Corporate Governance Committee, the Ethics and Compliance Committee, Risk Management Committee and other committees responsible for areas such as interest rate risk and trading risk. During 2002, the SPE Risk Committee was established with a mandate to review and report on the activities of SPEs. This Committee reports jointly to the Chief Risk Officer and the Chief Financial Officer to ensure compliance with SPE policies and procedures across the enterprise. See page 64 for further discussion of SPEs.

Key responsibilities are to:

- Implement and maintain an integrated enterprise-wide risk measurement, management and reporting framework
- Establish a comprehensive risk assessment and approval process including enterprise-wide policies and procedures
- Establish guidelines and risk limits to ensure appropriate risk diversification and optimization of risk-return on both a portfolio and transactional basis
- Advise the board and executive management of major risks being assumed by, or facing, the organization
- Partner with the business segments in identifying, understanding, measuring, mitigating and monitoring the risks being taken

Economic Capital

Economic Capital (EC) is an estimate of the amount of equity required to underpin risks. It is calculated by determining the level of capital that is necessary to cover risks consistent with our desired solvency standard and debt ratings. EC analysis is intended to represent the shareholder's perspective and drives the optimization of shareholder returns. Calculation of EC involves a number of judgments and assumptions, and changes to them may result in different amounts of EC being computed.

EC is attributed to provide directly comparable performance measurements for each of our business activities and assist senior management in strategic planning, resource allocation and performance measurement. Capital attribution methodologies are continuously monitored to ensure risks are being consistently quantified utilizing all available information. Periodically, enhancements are made to these methodologies with the changes applied prospectively.

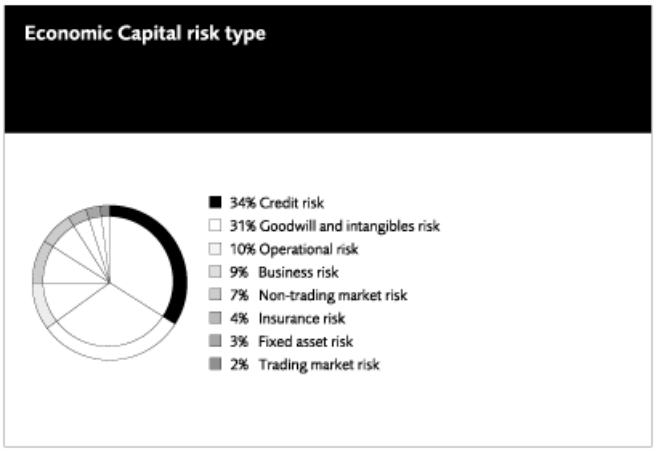
EC attribution methodology aims to:

- Cover all risks
- Ensure that a dollar of capital represents the same amount of risk wherever attributed
- Determine capital requirements in an unbiased accurate manner
- Create economically rational incentives for business managers

EC is a component in the calculation of Economic Profit (see page 26). Capital attribution strengthens risk management discipline. EC is calculated for the following eight distinct risk types: credit risk, good-will and intangibles risk, operational risk, business risk, non-trading market risk, insurance risk, fixed asset risk and trading market risk. Credit, market insurance and operational risk are further detailed in the following sections. Business risk is the risk of loss due to variances in volumes, prices and costs caused by competitive forces, regulatory changes, and reputational and strategic risks. Goodwill and intangibles and fixed asset risks are defined as the risk that the value of these assets will be less than their net book value at a future date.

The combination of risk factors between and within risk categories and lines of business leads to some risk reduction, called diversification. These diversification benefits are passed on to our businesses. Therefore, Economic Profit and return on equity calculations are based on EC levels that include these diversification effects.

The following chart represents the proportionate EC levels by risk type for fiscal 2002.



The following sections discuss how we manage the major controllable risks including credit, market, liquidity, insurance and operational risk.

Credit risk

Credit risk is attributed to both on-balance sheet financial instruments such as loans and acceptances and credit equivalent amounts related to off-balance sheet financial instruments.

Our 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 our business culture. The goal of credit risk management is to evaluate and manage credit risk in order to further enhance this strong credit culture.

As discussed in the credit quality section on pages 45 to 52, we have significantly enhanced our loan mix. This improvement is being achieved through our strategy of reducing exposure to non-core corporate client relationships while increasing the size of the consumer portfolio, including residential mortgages, which have very low loss rates.

We are continually adding to and improving the analytical tools used to analyze, measure and manage credit risk. This includes the use of third-party modeling tools, increased use of stress testing and enhanced management information systems.

Risk ratings

Corporate borrowers are assigned an internal risk rating based on a detailed examination of the organization. This examination considers industry sector trends, market competitiveness, overall company strategy,

financial strength, access to funds, financial management and any other risks facing the organization. Our rating system is based on a 22-point scale.

Credit scoring models are utilized to determine a credit score for consumer and certain small business lending. The credit scores measure the relative risk of the initial extension of credit and any further increases. Consumer credit risk is monitored using statistical scoring models and payment history in order to predict portfolio behaviour.

The internal risk ratings and credit scores are assessed and updated on a regular basis.

Portfolio diversification

Portfolio diversification is our overriding principle, therefore, our credit policies and limits are structured to ensure we are not overexposed to any given client, industry sector or geographic area.

To avoid excessive losses if any particular counterparty is unable to fulfill its payment obligations, we have established single name limits that are set according to risk ratings. In certain cases loans are syndicated in order to reduce overall exposure to a single name.

Limits are also in place to manage exposure to any particular country or sector. Each country and sector is assigned a risk rating. This risk rating considers factors common to all entities in a given country or sector yet outside the control of any individual entity. Limits are determined based on the risk rating along with our overall risk appetite and business strategy.

Risk mitigation

In order to mitigate risk on portions of our portfolio we enter into credit derivative contracts. As at October 31, 2002, credit mitigation was in place to cover $1.0 billion in corporate credit exposure. We also provided protection through credit derivatives to various counterparties totalling $.3 billion as at October 31, 2002.

Loan sales are also used to mitigate risk. We seek to identify and sell loans we have made to borrowers whose risk and reward profile and borrower ratings are no longer desirable to us.

In order to respond proactively to credit deterioration and mitigate risk, a problem loan workout group with specialized expertise handles the management and collection of nonaccrual loans as well as certain accrual loans.

Market risk

The level of market risk to which we are exposed varies continually, reflecting changing market conditions, expectations of future price and market movements and the composition of our trading and non-trading portfolios. We have established risk management policies and limits for our trading and asset/liability management activities that allow us to monitor and control the exposure to market risk resulting from these activities. We conduct trading activities over-the-counter and on exchanges in the spot, forward, futures and options markets and also participate in structured derivative transactions.

Interest rate risk

Interest rate risk is the potential adverse impact on our earnings and economic value due to changes in interest rates. In addition to the following discussion on trading activities please see the Non-trading portfolio section on page 61.

Credit spread risk

Credit spread risk is the potential adverse impact on our earnings and economic value due to changes in credit worthiness of persons we have credit exposure to both specifically and market-wide. We are exposed to credit spread risk through our holdings of bonds and credit derivatives. In the trading portfolio, credit spread risk arises from market-making activity as well as through proprietary trading in our credit derivatives trading unit.

Foreign exchange rate risk

Foreign exchange rate risk is the potential adverse impact on our earnings and economic value due to currency rate movements. We are exposed to foreign exchange rate risk in both the spot and forward foreign exchange markets and in the derivative market.

Equity risk

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

Trading activities

Market risks associated with trading activities are a result of market-making, positioning and sales and arbitrage activities in the interest rate, foreign exchange and equity markets. Our trading operation primarily acts as a market-maker or jobber, executing transactions that meet the financial requirements of our clients and transferring the market risks to the broad financial market. We also act as principal and take market risk proprietary positions within the authorizations granted by our Board of Directors.

We recently completed a major upgrade of our enterprise market risk management system as part of our continuous renewal process to

implement best practices and enhance our risk oversight capabilities. This represents a significant milestone in our ability to assess potential for loss using modeling techniques across all risk classes in a consistent and timely manner. In November 2002, we received regulatory approval to use an internal models approach for the regulatory capital requirement on specific risk of investment grade debt portfolios.

Value-At-Risk

Market risks associated with trading activities are managed primarily through the use of 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 we would experience in our trading portfolios from an adverse one-day movement in market rates and prices. Our 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. We use a historical simulation of the previous 500 trading day scenarios to determine VAR for our trading portfolio. The graph on page 56 shows the daily net trading revenue compared to the global trading VAR amounts for the year ended October 31, 2002. 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 2002, we experienced only four days of net trading losses, and we did not experience a single day with net trading losses in excess of the VAR estimate for that day.

Table 23 on the following page shows the year-end, high, average and low VAR by major risk category for our combined trading activities for the years ended October 31, 2002 and 2001. The table also shows our 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 our trading portfolio. As the table illustrates, the average VAR in 2002 was $11 million, the same as the average VAR in 2001. An increase in the interest rate VAR (due to the inclusion of credit spread risk within the VAR model) was offset by a reduction in risk within the equity trading portfolio.

TABLE 23 Market risk measures — Trading activities (1)

(C$ millions)	2002 Year-end	2002 High	2002 Average	2002 Low	2001 Year-end	2001 High	2001 Average	2001 Low
Global VAR by major risk category								
Equity	**$ 7**	**$12**	**$ 8**	**$6**	$ 8	$16	$ 10	$6
Foreign exchange and commodity	**2**	**9**	**3**	**1**	2	6	3	1
Interest rate	**11**	**14**	**6**	**2**	3	9	4	2
Global VAR (2)	**$ 13**	**$18**	**$ 11**	**$7**	$ 8	$18	$ 11	$6

(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.

The Group Risk Management function, which is independent of the trading operations, is responsible for the daily measuring of global trading risk exposures. The function uses our 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.

We recognize 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, we implement 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.

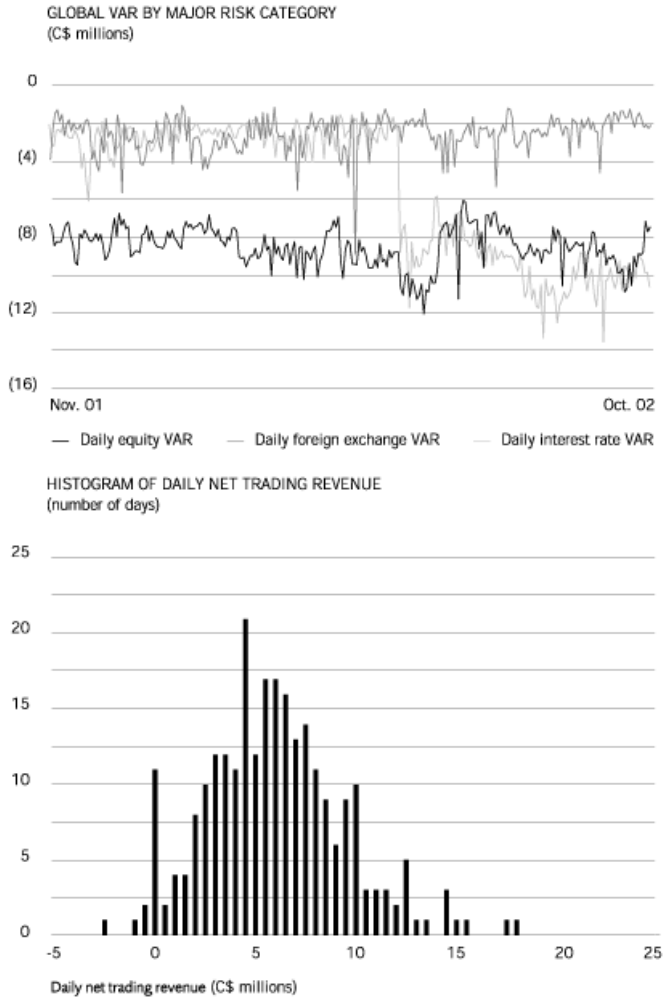
Back-testing

Back-testing against hypothetical profit and loss is used to monitor the statistical validity of VAR models. Hypothetical profit and loss is calculated by determining the impact of the actual one-day change in market rate or price movements on a given portfolio held constant for one day. Back-testing is performed daily across all trading portfolios. The results are submitted to OSFI on a quarterly basis. In fiscal 2002, there were two instances of the hypothetical net profit and loss exceeding the VAR. This is within the expected statistical range and supports the validity of the VAR model.

Stress testing

We also perform analysis on the potential trading losses due to stress events as a supplementary control on our 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 our portfolio.





Liquidity risk

The objective of liquidity management is to ensure we have the ability to generate or obtain sufficient cash or its equivalents on a timely and cost-effective basis to meet our commitments as they fall due. The management of liquidity risk is crucial to protecting our capital, maintaining market confidence and ensuring that we can expand into profitable business opportunities.

Liquidity risk is managed dynamically, exposures are continually measured, monitored and appropriately mitigated. We have developed and implemented a comprehensive liquidity management framework comprising policies, procedures, methodologies and measurements.

The Group Risk Committee and the Asset/Liability Committee provide guidance and oversight to our liquidity risk management program with the Audit Committee of the board approving our liquidity management framework and significant related policies. Corporate Treasury has global responsibility for developing liquidity management policies, strategies and contingency plans and for recommending and monitoring limits and coordinating subsidiary activities.

We have a Liquidity Crisis Team, composed of a cross-section of our senior executives. This team is responsible for the development, maintenance and success of our liquidity contingency plan. This plan would be activated in the event of a general market disruption or adverse economic developments that could destabilize our ability to meet obligations. This team meets regularly to review potential crisis scenarios and to update related action plans. Contingent liquidity exposures are identified and provisions are made to minimize possible damage through maintenance of a pool of unencumbered, high quality assets. These assets are marketable and can be immediately sold or pledged for secured borrowing and represent a dedicated and reliable source of emergency funding. In addition, a segregated portfolio of eligible securities is continuously available to support our participation in Canadian payment and settlement systems. For further information on liquidity see the Liquidity management section on page 62.

Insurance risk

Insurance risk includes product design and pricing risk, claims administration risk, underwriting risk and liability risk.

Product design and pricing risk

The process of designing and pricing products includes the estimation of many factors including future investment yields, mortality, morbidity, claims experience, expenses, policy lapse rates and taxes. Product design and pricing risk is the risk that actual experience will not match the assumptions made at the time pricing was determined and to the extent they differ, financial gains or losses will occur.

This risk is managed through detailed experience studies to support pricing assumptions and independent verification of scenario testing by our actuaries. In addition a portion of the policy benefit liabilities held on the balance sheet provides for misestimation and deterioration of assumptions from those assumed in the pricing. Risk is also mitigated through reinsurance, primarily for life insurance mortality and property and casualty catastrophe risks.

Claims administration risk

Claims administration risk is the exposure to higher than expected claims due to administrative practices in settling claims. Policies and procedures are in place that are designed to ensure that trained staff properly handle claims. There are approval limits in place to ensure that large dollar claims are handled and reviewed by experienced staff.

Underwriting risk

Underwriting risk is the exposure to financial losses resulting from the inappropriate selection and acceptance of the risks to be insured. Establishing policy retention limits that vary by market and geographic location mitigates exposure to large claims.

Liability risk

Liability risk exists when the attributes of a specific type of risk are misunderstood and improperly quantified and the liabilities established for this type of risk are inadequate. Actuaries review the assumptions used in the calculation of policy benefit liabilities on a quarterly basis.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed technology, human performance, processes or external events.

We endeavour to minimize operational losses by ensuring that effective infrastructure, controls, systems, and individuals are in place throughout our organization. We employ dedicated professionals who are proactive in developing and implementing new methodologies for the identification, assessment and management of operational risk.

We have developed and are currently implementing two new processes aimed at monitoring and mitigating operational risks in the organization.

Risk and control self-assessment (RCSA)

RCSA is a formal process of proactively identifying, documenting, assessing and managing our operational risks. Each business segment and functional unit is divided into its component activities, which become entities to be assessed. Each entity completes a workshop-based, self-assessment to determine their key risks, mitigating controls, the potential impact and likelihood of a problem occurring and the acceptability of the residual risk after existing controls are considered.

Where residual risk is deemed unacceptable, the group will agree on an action plan and timeline. The findings of the various RCSAs conducted are documented, aggregated, analyzed and reported on a group-wide basis.

Loss event database (LED)

LED refers to a centralized database aimed at capturing information about operational losses. The losses tracked are mapped to the entities identified in the RCSA process.

Information such as the frequency, severity and nature of operational losses are captured. This data capture will allow analysis at the business segment and enterprise level. This will lead to a better understanding of the root causes of operational losses and improved risk mitigation strategies.

Ongoing development

Research and development efforts in the areas of quantification methodologies and key risk indicators will continue as we strive to stay at the forefront of risk management best practices.

Financial priority: Balance sheet and capital management

Highlights

- Consumer loans up 5%
- Deposits up 4%
- Internally generated capital of $1.8 billion
- Capital ratios strengthened further
- Common share repurchases of $764 million
- Redeemed US$200 million of Series I and $150 million of Series E preferred shares
- Redeemed $400 million and issued US$400 million of subordinated debentures

Total assets were $382 billion at October 31, 2002, up $19.5 billion or 5% from October 31, 2001.

Compared to October 31, 2001, securities were up $14.3 billion or 18% and cash resources up $3.8 billion or 22%. The growth in securities partially reflected higher levels of activity in our global equity derivatives business, which holds long and short positions in equity securities.

Total loans were up $.4 billion or .2% from October 31, 2001, with the acquisition of Eagle Bancshares, in July 2002,contributing $1.1 billion in loans and the acquisition of the private banking business of Barclays in June 2002, contributing $.6 billion in loans. Consumer loans (residential mortgage, personal and credit card loans) were up $5.5 billion or 5%. Residential mortgages were up $5.4 billion or 8% (net of $3.7 billion of mortgage securitizations during the year) and personal loans were down $.5 billion or 2%. Credit card balances increased $.6 billion or 15%, largely reflecting the maturity of $.4 billion of credit card securitization term notes during the year. Business and government loans were down $5.1 billion or 8%, largely reflecting planned reductions in the Canadian and U.S. corporate loan portfolios to enhance the quality of the business loan portfolio.

The $1.0 billion increase in Other assets was largely driven by a $2.6 billion increase in derivative-related amounts. This increase in derivative-related amounts was largely offset by a $1.9 billion decrease in acceptances. Other — Other assets of $13.5 billion includes $805 million (US$517 million) of receivables due from Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank), relating to a derivative contract that is the subject of litigation with Rabobank. While the outcome of any litigation cannot be predicted with certainty, we expect to recover this amount in its entirety and accordingly have not recorded any provision for loss (for further information see Note 18 on page 91).

Total deposits were $245 billion, up $9.4 billion or 4% from October 31, 2001. Interest-bearing deposits were up $8.0; billion and non-interest-bearing deposits up $1.4 billion. Personal deposits were up $.5 billion, business and government deposits were up $12.3 billion or 11% and bank deposits were down $3.4 billion or 13%. Further details on deposits are provided in Note 10 on page 83.

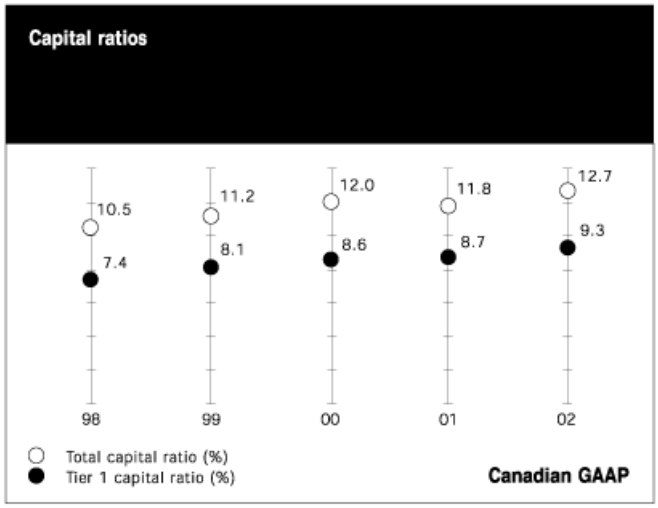
The fair value of loans and deposits differs from the respective book value due to changes in the levels of interest rates and changes in credit status. The estimated fair value of loans due from clients exceeded book values by $2.2 billion at October 31, 2002 and $4.4 billion at October 31, 2001. The estimated fair value of deposits owed to clients exceeded book values by $1.5 billion at October 31, 2002 and $2.4 billion at October 31, 2001. The net of the fair value excess of loans due from clients and the fair value excess of deposits due to clients was $.8 billion at October 31, 2002, as shown in Note 21 on page 95. The estimated fair value of loans and deposits were in excess of book values largely due to a decline in interest rates.

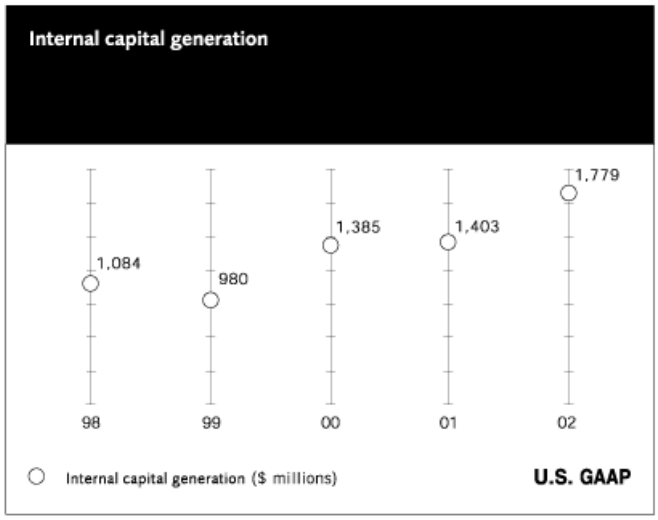
RBC Capital Trust, a closed-end trust, has a total of $1.4 billion of transferable trust units (RBC TruCS) outstanding. RBC TruCS are reported as non-controlling interest in subsidiaries on the consolidated balance sheet and are included in Tier 1 capital under guidelines issued by OSFI.

Total balance sheet capital, which includes shareholders' equity and subordinated debentures, was $25.7 billion at October 31, 2002, up $.6 billion or 3% from a year ago. The most significant factor behind the increase in capital over 2001 was internal capital generation of $1.8 billion, partially offset by net capital redemptions and net share repurchases of $.9 billion during 2002.

As required by Statement of Financial Accounting Standards, *Employers' Accounting for Pensions* (FAS 87), we recognized in Other comprehensive income an additional pension obligation of $276 million, net of related income taxes. The increase in additional pension obligation is primarily due to the fair value of plan assets being less than the accumulated benefit obligation for certain plans this year. Asset values declined due to weak equity markets.

We fund the pension plans in accordance with regulatory requirements, which require funding when there is a deficit on a funding basis. Different assumptions and methods are prescribed for regulatory funding purposes versus accounting purposes. Our pension plans are in a surplus position for regulatory funding purposes. Note 15 on page 88 describes the funding position for accounting purposes.





U.S. GAAP Royal Bank of Canada

Capital management

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

We are committed to maintaining strong capital ratios through internal capital generation, the issuance of capital instruments when appropriate, and controlled growth in risk-adjusted assets. We were able to achieve strong levels of internal capital generation despite weaker capital market conditions during the past year. The market environment and planned reductions of corporate loan exposures also contributed to slower growth in risk-adjusted assets, enabling us to continue repurchasing shares and redeeming some of our outstanding capital instruments. Our debt ratings continue to enhance our ability to raise capital at competitive prices.

Capital management activity

In fiscal 2002, we repurchased 14.3 million common shares, of which 4.5 million shares were repurchased for $229 million under a normal course issuer bid that expired in June 2002, and 9.8 million shares were repurchased for $513 million under a normal course issuer bid that allows for the repurchase of up to 20 million common shares, representing approximately 3% of outstanding common shares, between June 24, 2002 and June 23, 2003. During the fourth quarter of 2001, we entered into an agreement with an independent third party to execute an accelerated repurchase of six million common shares. This agreement resulted in an additional repurchase cost of $22 million this year. In total, we spent $764 million in connection with our share repurchases during 2002.

In November 2001, we redeemed US$200 million of First Preferred Shares Series I and, in October 2002, redeemed $150 million of First Preferred Shares Series E.

In November 2001, we issued US$400 million of subordinated debentures through our European Medium Term Note Programme. In September 2002, we redeemed $400 million of subordinated debentures.

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). Regulatory capital is allocated into two tiers. Tier 1 capital comprises the more permanent components of capital. The components of Tier 1 and Tier 2 capital are shown in Table 24 below.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets based on Canadian GAAP financial information. Risk-adjusted assets, as shown in Table 25 on page 60, are determined by applying OSFI prescribed risk weights to balance sheet assets and off-balance sheet financial instruments according to the credit risk of the counterparty. Risk-adjusted assets also include an amount for the market risk exposure associated with our trading portfolio.

Our policy is to remain well capitalized so as to provide a safety net for the variety of risks to which we are exposed to in the conduct of our 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 7% and a Total capital ratio of 10%. As at October 31, 2002, our Tier 1 and Total capital ratios were 9.3% and 12.7%, respectively, compared to 8.7% and 11.8% at October 31, 2001. We maintained capital ratios that exceeded our medium-term goals of 8.0% for the Tier 1 ratio and 11-12% for the Total capital ratio. Effective November 1, 2002, we have raised our medium-term Tier 1 capital ratio goal to 8-8.5% from 8%. Our 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 24 below.

Pending developments

In 1999, BIS issued a proposal for a new capital adequacy framework to replace the previous Capital Accord of 1988, under which we are currently regulated. This proposal continues to be at the discussion phase. Implementation of the final proposal is not likely to occur prior to fiscal 2006.

TABLE 24 Capital ratios (1)

(C$ millions, except percentage amounts)	2002	2001	2000
Tier 1 capital			
Common equity	**$ 17,238**	$ 16,141	$ 11,504
Non-cumulative preferred shares	**1,545**	2,024	2,037
Non-controlling interest in subsidiaries	**1,400**	1,400	650
RBC TruCS	**1,400**	1,400	650
Other	**29**	28	23
Goodwill	**(4,832)**	(4,742)	(647)
	15,380	14,851	13,567
Tier 2 capital			
Permanent subordinated debentures	**467**	477	457
Other subordinated debentures (2)	**6,147**	5,935	5,138
General allowance (3)	**1,420**	1,410	1,188
Non-controlling interest in subsidiaries	**—**	—	1

	8,034	7,822	6,784
Investment in insurance subsidiaries	**(2,014)**	(2,107)	(960)
Other substantial investments	**(368)**	(387)	(342)
First loss facility	**(20)**	(8)	(5)
Total capital	**$ 21,012**	$ 20,171	$ 19,044
Risk-adjusted assets	**$165,559**	$171,047	$158,364
Capital ratios (4)			
Common equity to risk-adjusted assets	**10.4%**	9.4%	7.3%
Tier 1 capital to risk-adjusted assets	**9.3%**	8.7%	8.6%
Total capital to risk-adjusted assets	**12.7%**	11.8%	12.0%
Assets-to-capital multiple (5)	**17.3**	17.2	15.3
U.S. basis (4),(6)			
Tier 1 capital to risk-adjusted assets	**8.5%**	8.1%	7.8%
Total capital to risk-adjusted assets	**11.9%**	11.2%	11.3%
Equity to assets (7)	**4.9%**	5.3%	4.5%

(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% (2001-.875%; 2000-.75%) of risk-adjusted assets.

(4) On November 26, 2001, were deemed US$200 million of Non-cumulative First Preferred Shares Series I, which reduced Tier 1 capital by the same amount. On November 8, 2001, we issued US$400 million of subordinated debentures, which increased Total capital by the same amount. Had these transactions taken place as at October 31, 2001, the 2001 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 prescribed 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.

TABLE 25 Risk-adjusted assets (1)

(C$ millions, except percentage amounts)	Balance sheet amount	Weighted average of risk weights (2)	Risk-adjusted balance 2002	Risk-adjusted balance 2001
Balance sheet assets				
Cash resources	$ 21,323	11%	$ 2,284	$ 1,515
Securities				
Issued or guaranteed by Canadian or other OECD governments	27,712	0%	36	—
Other	66,088	11%	7,137	7,341
Residential mortgages (3)				
Insured	33,849	1%	379	383
Conventional	38,950	52%	20,168	18,511
Other loans and acceptances (3)				
Issued or guaranteed by Canadian or other OECD governments	18,448	17%	3,098	1,810
Other	121,893	74%	89,836	97,553
Other assets	48,693	12%	5,692	6,114
	$ 376,956		$128,630	$133,227

	Contract amount	Credit conversion factor	Credit equivalent amount			
Off-balance sheet financial instruments						
Credit instruments						
Guarantees and standby letters of credit						
Financial	$ 10,393	100%	$10,393	82%	$ 8,560	$ 8,629
Non-financial	3,217	50%	1,609	100%	1,609	1,422
Documentary and commercial letters of credit	772	20%	154	97%	150	148
Securities lending	23,967	100%	23,967	3%	646	393
Commitments to extend credit						
Original term to maturity of 1 year or less	40,931	0%	—	—	—	—
Original term to maturity of more than 1 year	34,115	50%	17,058	92%	15,638	18,821
Uncommitted amounts	45,978	0%	—	—	—	—
Note issuance/revolving underwriting facilities	23	50%	12	100%	12	66
	$159,396		$53,193		$26,615	$29,479

	Notional amount	Gross positive replacement cost (4)	Credit equivalent amount (5)			
Derivatives (6)						
Interest rate contracts						
Forward rate agreements	$ 198,845	$ 178	$ 299	21%	**$ 64**	$ 114
Swaps	862,264	19,608	24,357	26%	**6,323**	5,617
Options purchased	55,293	563	914	28%	**258**	123
	1,116,402	20,349	25,570		**6,645**	5,854
Foreign exchange contracts						
Forward contracts	544,719	6,802	13,049	28%	**3,685**	3,881
Swaps	84,055	1,781	6,341	23%	**1,445**	1,261
Options purchased	56,204	809	1,491	29%	**439**	441
	684,978	9,392	20,881		**5,569**	5,583
Credit derivatives (7)	52,151	861	2,963	29%	**858**	369
Other contracts (8)	13,126	849	1,701	31%	**529**	617
Total derivatives before netting	$1,866,657	31,451	51,115		**13,601**	12,423
Impact of master netting agreements		(20,861)	(26,930)		**(7,132)**	(6,339)
Total derivatives after netting		$ 10,590	24,185		**6,469**	6,084
Total off-balance sheet financial instruments			$ 77,378		**$ 33,084**	$ 35,563

General market risk	**3,845**	2,257
Total risk-adjusted assets	**$165,559**	$171,047

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

(2) Represents the weighted average of counterparty risk weights within a particular 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, before factoring in the impact of master netting agreements. Exchange-traded instruments 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. The fair value of $194 million (2001 - $194 million) is excluded at October 31, 2002. Written options are excluded as they represent our obligations and as such do not attract credit risk.

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

(6) The notional amount of $5,593 million (2001 - $1,693 million) and replacement cost of $93 million (2001 - $49 million) of derivatives embedded in financial instruments, certain warrants and loan commitments considered as derivatives are excluded from the amounts in this table.

(7) Comprises default swaps, total return swaps and credit default baskets.

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

Asset/liability management

Overview

Asset/liability management comprises the evaluation, monitoring and management of our non-trading portfolio, liquidity management and funding. It is important to note that liquidity and capital resources are likely to be affected by many of the same factors which are detailed in this section of Management's discussion and analysis, the Factors discussion on pages 23 to 24 and the Risk management discussion on pages 53 to 57. Additionally, off-balance sheet financing arrangements are often integral to both liquidity and capital resources, and are discussed in detail on pages 64 to 65 of this section.

Non-trading portfolio

Traditional banking activities, such as deposit taking and lending, expose us to market risk, of which interest rate risk, as described on page 55, is the largest component.

We actively manage the interest rate risk for the North American non-trading balance sheet and oversee all other non-trading units that have been delegated interest rate risk limits. We endeavour to adopt industry best practices and carry out the following functions:

Policy

The Conduct Review and Risk Policy Committee of the Board of Directors approves the global policies governing interest rate risk management. The policies define the acceptable limits within which risks to net interest income over a 12-month horizon and the economic value of equity are to be managed. These ranges are based on immediate and sustained ± 200 basis points parallel shifts of the yield curve. The limit for net interest income risk is 6% of projected net interest income and for economic value of equity risk is 12% of projected common equity.

Interest rate funds transfer pricing

We use a funds transfer pricing mechanism to centralize interest rate risk within Corporate Treasury and to ensure an economic allocation of interest income to the various business units. Funds transfer pricing at the transaction level ensures that interest rate risk is appropriately transferred to Corporate Treasury for management. The funds transfer pricing rates are market-based and aligned with risk management principles. They are supported by empirical research into client behaviour and are an integral input to the retail business pricing decisions.

Applied research

We are dedicated to investigating best practices in instrument valuation, econometric modeling and new hedging techniques. These investigations range from evaluation of traditional asset/liability management processes to application of recent developments in quantitative methods to our processes.

We focus on developing retail product valuation models that incorporate consumer behaviour. These valuation models are typically derived through econometric estimation of consumer exercise of options embedded in retail products. The most significant embedded options are mortgage rate commitments and prepayment options. On the liability side of the balance sheet, we tend to focus on modeling administered rates and the sensitivity of liability balances to interest rate changes.

Risk measurement

We continue to make significant investment in new technology to facilitate measurement and timely management of our interest rate risk position. A range of static and dynamic scenarios is used every week to measure our risk position based on client rates as well as funds transfer pricing rates.

Static scenarios allow us to analyze our risk at a particular point in time under various interest rate assumptions. These assumptions comprise parallel shocks as well as twists to the current yield curve. Static scenarios are employed for assessing the economic value of equity risk as well as the net interest income risk. Dynamic scenarios simulate our interest income in response to various combinations of business and market factors. Business factors include assumptions about future pricing strategies and volume and mix of new business, whereas market factors include assumptions such as changes in interest rate levels and changes in the shapes of yield curves.

We measure our risk positions for the Canadian non-trading balance sheet every week and are capable of identifying the various sources of interest rate risk.

Interest rate risk management

Our goal is to manage interest rate risk of the non-trading balance sheet to a targeted level, on a continual basis. We modify the risk profile of the balance sheet through proactive hedging activity.

The interest rate risk can be disaggregated into linear risk and non-linear risk based on the varying responses of the balance sheet to different interest rate movements. The linear risk is primarily managed through interest rate swaps. The non-linear risk arises mainly from embedded options in our products that allow clients to modify the maturities of their loans or deposits. Examples are a client pre-paying a personal loan or a prospective client getting a committed rate on a new mortgage before the mortgage loan takes effect. Embedded options are modeled using assumptions based on empirical research and are managed by either purchasing options or by a dynamic hedging strategy.

The performance of interest rate risk management function within Corporate Treasury is benchmarked on a total return basis. A by-product of this benchmarking exercise is a methodology that controls model risk by continuously back-testing model assumptions against actual client behaviour.

Table 26 below presents the potential impacts of 100 and 200 basis point increases and decreases in interest rates on our economic value of equity and on current earnings on our non-trading portfolio. These measures are as of October 31, 2002, and are based on assumptions made by management and validated by empirical research. The methodology assumes that no further hedging is undertaken. We have 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, our interest rate risk profile has slightly faster re-pricing of assets than of liabilities with the duration of equity at about 2.5 years.

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

TABLE 26 Market risk measures — Non-trading activities (1)

	2002		2001	
(C$ millions)	**Economic value of equity risk**	**Net interest income risk**	**Economic value of equity risk**	**Net interest income risk**
100bp increase	**$ (309)**	**$ 104**	$ (390)	$ 96
100bp decrease	**145**	**(151)**	256	(108)
200bp increase	**$ (662)**	**$ 190**	$ (842)	$ 179
200bp decrease	**345**	**(327)**	466	(294)

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

Liquidity management

Our liquidity management framework is designed to ensure that reliable and cost-effective sources of cash are available to satisfy current and prospective commitments, both on and off-balance sheet. The primary goals of this framework are the preservation of a large base of core client deposits, ongoing access to diversified sources of wholesale funding and the maintenance of a dedicated pool of unencumbered marketable securities that provide ready access to cash.

The Corporate Treasury function has global responsibility for the development of liquidity management policies, strategies and contingency plans and for recommending and monitoring limits within this framework. Our principal regional trading and funding platforms provide transactional support for liquidity management policies and strategies. The Group Risk Management Committee and the Asset/Liability Committee share management oversight of liquidity management and receive regular reports detailing compliance with limits and guidelines. The Audit Committee of the Board of Directors approves our liquidity management framework and significant related policies and is informed on a periodic basis about our current and prospective liquidity condition. Additionally, we have a liquidity contingency plan in place, which is maintained and administered by the Liquidity Crisis Team. Subsidiaries are responsible for managing their own liquidity in compliance with policies, practices and governing regulatory requirements.

We measure and monitor our liquidity condition from structural, tactical and contingent perspectives. The assessment of our liquidity position based on these measures reflects management estimates and judgments pertaining to the behaviour of our clients and future market conditions.

Structural liquidity risk management

Existing balance sheet composition can create liquidity exposure due to mismatches in effective maturities between assets and liabilities. Structural liquidity risk management addresses this type of exposure, which is measured and monitored through ongoing stress testing of our balance sheet.

We recently adopted the cash capital model to assist in the evaluation of balance sheet liquidity and in the determination of the appropriate term structure of our debt financing. This methodology provides a comprehensive, formula-based approach for the assessment of balance sheet integrity and our ability to continue as a going concern during a prolonged liquidity event, such as an unexpected withdrawal of short-term funding. The application of this model entails assigning liquidity discounts or “haircuts” to our balance sheet assets based on our assessment of the cash-generating characteristics of each asset category in the context of a sustainable business model. The illiquid component of our balance sheet assets can be determined by this analysis. Liabilities are arrayed along a stability continuum, ranging from core to volatile, on the basis of both contractual and behavioural properties in order to identify the constant elements of our funding. This analysis of our balance sheet enables us to more accurately estimate our exposure to a protracted loss of unsecured funding and to quantify our longer-term financing requirements.

Tactical liquidity risk management

Tactical liquidity risk management addresses our normal day-to-day funding requirements and is managed by imposing limits on net funds outflows for specified 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, as required, to update assumptions and limits. Detailed reports on our principal short-term asset/liability mismatches are monitored on a daily basis to ensure compliance with the prudential limits established for overall group exposure and by major currency and geographic location. Corporate Treasury issues procedural directives to the individual units engaged in executing policy to ensure consistent application of cash flow management principles across the entire organization.

Contingent liquidity risk management

The liquidity contingency plan identifies comprehensive action plans that would be implemented in the event of general market disruptions or adverse economic developments that could jeopardize our ability to meet commitments. Four different market scenarios, of varying duration and severity, are addressed in the liquidity contingency plan to highlight potential liquidity exposures and requisite responses. The Liquidity Crisis Team, comprising senior individuals from business and functional units, meets regularly to review and update implementation plans and to consider the need for activation in view of developments in Canada and globally.

To address potential liquidity exposures identified by our scenario analyses, we maintain a pool of segregated and unencumbered marketable securities. These high-quality assets can be readily sold or pledged for secured borrowing and represent a dedicated and reliable source of emergency funding. In addition, we maintain a separate portfolio of eligible assets to support our participation in Canadian payment and settlement systems. Liquid assets and assets purchased under reverse repurchase agreements (before pledging as detailed below) totalled $155 billion or 41% of total assets at October 31, 2002 as compared to $137 billion or 38% respectively at October 31, 2001. Canadian dollar liquid assets are primarily marketable securities while a material portion of our foreign currency liquid assets are issued by highly rated foreign banks. As at October 31, 2002, $10 billion of assets had been pledged as collateral, up from $9 billion at October 31, 2001. We have another $39 billion in obligations related to assets sold under repurchase agreements or securities sold short at October 31, 2002, compared to $37 billion at October 31, 2001. For further details, see Note 18 on page 92.

Funding strategy

Diversification of funding sources is a crucial component of our overall liquidity management strategy since it expands funding flexibility, minimizes funding concentration and dependency and generally lowers financing costs. Core funding, comprising capital, longer-term liabilities and a diversified pool of personal and, to a lesser extent, commercial deposits, is the foundation of our strong structural liquidity position.

Credit ratings

Our ability to access unsecured funding markets and our financing costs in such markets are primarily dependent upon maintaining acceptable credit ratings, which in turn is largely determined by the quality of our earnings, the adequacy of our capital and the effectiveness of our risk management programs. While our estimates suggest that a minor downgrade would not materially influence our funding capacity or costs, we recognize the importance of avoiding such an event and are committed to actions that should reinforce existing external assessments of the

bank's financial strength. A series of downgrades could have an adverse impact on our funding capacity and on the results of our operations.

Deposit profile

Personal deposits remain the prime source of funding for our Canadian dollar balance sheet while most foreign currency deposits originate from unsecured, "wholesale" sources, including large corporate and institutional clients and foreign commercial and central banks. Our personal deposit franchise constitutes a principal source of predictable and dependable funding. Certain commercial and institutional client groups also maintain relational balances with relatively low volatility profiles, a portion of which are considered core funding for structural liquidity purposes. Relational balances are typically maintained by commercial and corporate clients to facilitate their daily operating requirements. In some businesses, collective balances are substantial and exhibit a high degree of relative stability. We promote wholesale funding diversity and regularly review sources of short-term funds to ensure maintenance of wide

diversification by provider, product and geographic origin. In addition, we maintain an ongoing presence in different funding markets, constantly monitoring market developments and trends in order to identify opportunities or risks and to take appropriate pre-emptive actions. For further details see Note 10 on page 83.

Term funding sources

Long-term funding strategy is integrated with our current and estimated structural liquidity position as reflected in our cash capital position. Liquidity objectives, as well as market conditions, interest rates, credit spreads and desired financial structure, influence annual long-term funding activities, including currency mix and market concentration. Diversification into new markets and untapped investor segments is constantly evaluated against relative issuance costs. Our long-term funding sources are managed to minimize concentration by geographic location, investor segment, and currency and maturity profile. During fiscal 2002, we continued to expand our long-term funding base by issuing $2.6 billion of senior deposit notes in various currencies and markets. Total unsecured long-term funding outstanding at October 31, 2002 was $13.2 billion, compared with $12.6 billion at October 31, 2001.

We use asset securitization programs as an alternative source of funding, to provide liquidity and for asset/liability management purposes. In particular, $1.7 billion in new financing was provided during the year by the securitization and sale of government guaranteed residential mortgages (MBS). Our total outstanding MBS sold at year-end was $2.4 billion. In addition, $1.7 billion of our credit card receivables have been securitized through notes issued by a securitization SPE (see page 64, Special purpose entities – securitization for more details).

Off-balance sheet

In the normal course of business, we engage in a variety of financial transactions that, under GAAP, are either not recorded on our balance sheet or are recorded on our balance sheet in amounts that differ from the full contract or notional amounts. These transactions involve, among other risks, varying degrees of market, credit and liquidity risk, which are discussed in the Risk management section on pages 53 to 57. Off-balance sheet transactions are either proprietary or client transactions, and are generally undertaken for risk management, capital management and/or funding management purposes. The types of off-balance sheet activities we undertake include issuance of credit instruments and lease commitments, derivative financial instruments and transactions with SPEs. Each of these types of activities is discussed below.

Credit instruments

We provide credit instruments to our clients to help them meet their financing needs. Guarantees and standby letters of credit carry the same credit risk as loans and represent irrevocable assurances that we will make payments in the event that a client cannot meet its obligations to third parties. On behalf of clients, we also undertake written documentary and commercial letters of credit, authorizing a third party to draw drafts from us to a stipulated amount and typically having underlying shipments of goods as collateral. We make commitments to extend credit, which may represent unused portions of authorizations to extend credit in the form of loans, acceptances, guarantees and letters of credit. We have uncommitted amounts, which represent revocable offers by us to extend credit to a borrower, but not obligations to extend credit. We are also party to note issuance facilities (including revolving facilities), which represent underwriting agreements that enable a borrower to issue short-term debt securities. Table 27 below provides a detailed summary of our off-balance sheet credit instruments.

Lease commitments

We have made minimum future rental commitments for premises and equipment under long-term non-cancellable leases, which are detailed for each of the next five years and thereafter in Table 27 below. Our lease agreements do not contain any covenants that restrict our ability to pay dividends, engage in debt or equity financing transactions, or enter into additional lease agreements.

Derivative financial instruments

As a part of our institutional sales and trading activities, we act as counter-party to clients in transactions involving derivative financial instruments. We undertake this role to assist our clients in managing their exposure to various types of risk. We also engage in transactions involving derivative financial instruments with other counterparties to manage our exposure to interest rate, currency, credit and market risks (market risks are discussed on page 55). All derivatives are recorded at fair value on our balance sheet (fair value assumptions are discussed on page 25). Although derivative transactions are measured in terms of their notional amounts, these amounts are not recorded on our balance sheet, as the notional amounts serve as points of reference for calculating payments, and are not the actual amounts that are exchanged. Table 25 on page 60 details the notional amount, credit equivalent amount and risk-adjusted balances by derivative contract type. Note 19 on pages 93 and 94, details the notional amount of derivatives by reference to term to maturity and replacement cost, respectively.

To the extent that one or more of the derivative financial transactions we undertake involve amounts owing from third-party counterparties, we are exposed to counterparty credit risk (credit risk is discussed in more detail on page 54). Total credit risk as represented by the fair value of all derivatives that have a positive market value amounted to $10.6 billion as at October 31, 2002, and is recorded at replacement cost on our balance sheet. Additionally, Notes 1 and 19 on pages 73 to 74 and 92 to 94, respectively, provide more detail on the accounting for derivatives.

TABLE 27 Lease commitments and credit instruments

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Lease commitments	$ 364	$ 630	$ 470	$ 754	$ 2,218
Credit instruments					
Guarantees and standby letters of credit	4,159	6,247	1,526	1,678	13,610
Documentary and commercial letters of credit	378	236	118	40	772
Commitments to extend credit	44,832	10,624	4,233	15,357	75,046
Uncommitted amounts	814	41,121	2,835	1,208	45,978

	50,183	58,228	8,712	18,283	135,406
Total	$ 50,547	$ 58,858	$ 9,182	$ 19,037	$137,624

Special purpose entities

Special purpose entities (SPEs) are principally used to securitize financial and other assets in order to obtain access to funding, to mitigate credit risk and to manage capital. SPEs are an important part of the financial markets, providing market liquidity by facilitating investors' access to specific portfolios of assets and risks in a form that meets their investment criteria. We use SPEs to securitize a portion of our credit card receivables. We provide SPE repackaging services to clients who seek access to financial assets in a form different than what is conventionally available. We also act as an intermediary or agent for clients who want to use SPEs to securitize their own financial assets.

SPEs are typically set up for a single, discrete purpose, have a limited life and serve to legally isolate the financial assets held by the SPE from the selling organization. SPEs are not operating entities and usually have no employees. The typical SPE structure involves a company selling assets to the SPE. The SPE funds the purchase of those assets by issuing securities to investors in the form of certificates, commercial paper or other notes of indebtedness. The financial interests of investors in SPEs are usually limited to interests in the assets of the SPE, and to various forms of credit enhancement accompanying the SPE assets, which may include conditional access to a cash collateral account, over-collateralization in the form of excess assets in the SPE or a line of credit facility. Liquidity and credit facilities as well as interest rate and other swaps may be provided by financial institutions to address mismatches between the cash flows of the underlying assets and the indebtedness issued by the SPE.

We provide services to SPEs in a number of different capacities including administration of the SPEs and the underlying asset pools, as a trustee for SPEs' assets, as a liquidity or credit enhancement provider, or as a counterparty in transactions involving derivative financial instruments or as collateral manager.

We manage and monitor our direct involvement with SPEs through our SPE Risk Committee, which is comprised of representatives from functional areas including risk management, corporate treasury, finance, subsidiary governance office, law, taxation, subsidiary banking groups and human resources. This committee's key activities include formulating policies governing SPEs, reviewing new and unusual SPE transactions and monitoring the ongoing activities of SPEs.

The Financial Accounting Standards Board is currently drafting new accounting standards on the consolidation of SPEs. Since these new standards are still being drafted their impact on our balance sheet is not quantifiable but could result in us consolidating certain assets and liabilities held in our SPEs.

Securitization of credit card receivables

We securitize some of our credit card receivables through an SPE. The SPE is funded through the issuance of senior and subordinated notes collateralized by the underlying credit card receivables. The primary economic purpose of this activity is to diversify our sources of funding and to enhance our liquidity position. Although these credit card receivables are no longer on our balance sheet, we maintain the client account and retain the relationship.

The transfer of the credit card receivables to the custodian of those assets is a sale from a legal perspective. In addition, our credit card securitization structure qualifies for sale treatment from an accounting perspective. Under FAS 140, the receivables are removed from our balance sheet resulting in a gain or loss reported in non-interest revenue. Note 7 on pages 81 and 82 provides information on our key securitization activities, including key assumptions. This SPE meets the Statement of Financial Accounting Standard, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140) criteria for a Qualifying SPE (QSPE) and, accordingly, as the transferor of the credit card receivables, we are precluded from consolidating this SPE.

We continue to service the credit card receivables sold to the QSPE. In addition, we perform an administrative role for the QSPE in which we are responsible for ensuring that the ongoing public filings of the QSPE are performed, as required, and that the investors in the QSPE's asset-backed securities receive interest and principal payments on a timely basis.

We provide first loss protection to the QSPE in two forms. Our interest in the excess spread from the QSPE is subordinate to the QSPE's obligation to the holders of its asset-backed securities. Excess spread is the residual net interest income after all other trust expenses have been paid. Therefore, our excess spread serves to absorb losses with respect to the credit card receivables before payments to the QSPE's noteholders are affected. The present value of this excess spread is reported as a retained interest within available for sale securities on our consolidated balance sheet. In addition, we provide loans to the QSPE to pay up-front expenses. These loans rank subordinate to all notes issued by the QSPE.

At October 31, 2002, total credit card receivables securitized and held off-balance sheet amounted to $1.7 billion, compared to $2.1 billion at October 31, 2001. The carrying value of our retained interests in securitized credit card receivables at October 31, 2002, was $15.1 million compared to $19.5 million in 2001, and amounts receivable under subordinated loan agreements were $5.2 million compared to $8.5 million in 2001.

Securitization of client financial assets

Within our global securitization group, our principal relationship with SPEs comes in the form of administering multi-seller asset-backed commercial paper conduit programs (multi-seller SPEs). We currently administer five multi-seller SPEs — three in Canada and two in the U.S. These five multi-seller SPEs have purchased financial assets from our clients totalling $20.6 billion. Under current accounting standards, the five multi-seller SPEs that we administer are not consolidated on our balance sheet.

We are involved in the multi-seller SPE markets because our clients value these transactions, they offer a growing source of revenue and they generate a favorable risk-adjusted return for us. Our clients primarily utilize multi-seller SPEs to diversify their financing sources and to reduce funding costs by leveraging the value of high quality collateral.

The multi-seller SPEs purchase various financial assets from clients and finances those purchases by issuing highly rated asset-backed commercial paper. The multi-seller SPEs typically purchase the financial assets as part of a securitization transaction by our clients. In these

situations, the sellers of the financial assets continue to service the respective assets and generally provide some amount of first-loss protection on the assets. We do not maintain any ownership or retained interest in these multi-seller SPEs. Instead, we provide or retain certain services such as transaction structuring and administration as specified by the multi-seller SPE's program documents and based on rating agency criteria. In addition, we provide backstop liquidity facilities and partial credit enhancement to the multi-seller SPEs. We receive market-based fee revenue from such services, which is reported as non-interest revenue. We also have no rights to, or control of, the assets owned by the multi-seller SPE.

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The table below summarizes the financial assets owned by the multi-seller SPEs at fiscal years ended October 31.

Asset class

(C$ millions)	2002	2001
Credit cards	**$ 4,671**	$ 3,785
Auto loans and leases	**3,615**	4,298
Equipment receivables	**2,509**	2,159
Trade receivables	**2,479**	2,094
Residential mortgages	**2,004**	1,682
Other loans	**1,275**	843
Dealer floor plan receivables	**1,208**	1,275
Consumer loans	**1,196**	1,114
Asset-backed securities	**926**	487
Other	**706**	579
	$20,589	$18,316

The commercial paper issued by each multi-seller SPE is in the SPE's own name with recourse to the financial assets owned by the multi-seller SPE. The multi-seller SPE commercial paper is non-recourse to us and non-recourse to the other multi-seller SPEs that we administer. Each multi-seller SPE is largely prohibited from issuing medium-term notes or other forms of indebtedness to finance the asset purchases. Consequently, each multi-seller SPE's commercial paper liabilities are generally equal to the assets owned by that multi-seller SPE. The small difference between each of the multi-seller SPE's assets and liabilities balances is mostly related to the discount or interest costs attributable to the commercial paper. As of October 31, 2002, the total face amount of commercial paper issued by the multi-seller SPE's equaled $20,589 million generating $20,534 million of cash proceeds with the difference between these amounts representing the commercial paper discount.

At fiscal years ended October 31, total commitments and amounts outstanding under liquidity and credit facilities were as shown in the following table:

Liquidity and credit facilities

	2002		2001	
(C$ millions)	Committed	Outstanding	Committed	Outstanding
Liquidity facilities	**$22,593**	**$ —**	$20,614	$ —
Credit facilities	**7,211**	**—**	3,856	—
	$29,804	**$ —**	$24,470	$ —

We provide backstop liquidity facilities to the multi-seller SPEs as an alternative source of financing in the event that such SPEs are unable to access commercial paper markets, or in limited circumstances, when pre-determined performance measures of the financial assets owned by the multi-seller SPEs are not met. The terms of the backstop liquidity facilities do not require us to advance money to the multi-seller SPEs in the event of bankruptcy or to purchase non-performing or defaulted assets. None of the backstop liquidity facilities that we have provided has ever been drawn upon.

The partial credit enhancement that we provide to the multi-seller SPEs is in place to protect commercial paper investors in the event that the credit enhancement supporting the asset pools proves to be insufficient to prevent a default of one or more of the asset pools. Each of the asset pools is structured to achieve a high investment grade credit profile through credit enhancement related to each transaction. As a result, we believe that the program credit enhancements that we provide to the multi-seller SPEs present a modest amount of credit risk.

The economic exposure that we assume when we provide backstop liquidity commitments and partial credit enhancement is contingent in nature. We manage these exposures within our risk management functions in the same manner that we manage other contingent and non-contingent risk exposures. Our risk management process considers the credit, liquidity and interest rate exposure related to each of the assets. The risk exposure of each of these components individually and taken as a whole is deemed to be acceptable. All transactions are reviewed by external rating agencies. The weighted average credit quality of the assets supported by our backstop liquidity and partial credit enhancement is among the highest quality rating levels based on our internal risk rating system, which is described on page 54. The liquidity risk to us is deemed to be low based on the historical performance and high credit quality of the multi-seller SPEs' assets. Interest rate exposure is deemed to be low and is generally managed at the transaction level by passing on the funding cost variability to the securitization structures. Corporate Treasury scrutinizes contingent balance sheet risk, in effect monitoring the risk of drawdown under any of the credit facilities.

Creation of investment products

We use repackaging SPEs to create unique credit products to meet the needs of investors with specific requirements. As part of this process, we may enter into derivative contracts with these SPEs in order to convert various risk factors such as yield, currency or credit risk of underlying assets to meet the needs of our clients. In this role as derivative counterparty to the SPE, we assume the associated counterparty credit risk of

the SPE. In order to enter into these transactions we establish an internal risk rating of the SPE and provide ongoing risk assessment and monitoring of the SPE's credit risk. As with all counterparty credit exposures, these exposures are put in place and reviewed pursuant to our normal risk management process in order to effectively manage and monitor this credit risk profile.

These SPEs often issue notes. Those notes may also be rated by external rating agencies, as well as listed on a stock exchange and are generally traded via recognized bond clearing systems. While the majority of the notes that are created in repackagings are expected to be sold on a 'buy & hold' basis, we may on occasion act as market-maker. We do not, however, provide any repackaging SPE with any guarantees or other similar support commitments. There are many functions required to create a repackaged product. We fulfill some of these functions and independent third parties or specialist service providers fulfill the remainder. Currently we act as sole arranger and swap provider for SPEs where we are involved, and in most cases as paying and issuing agent as well.

Asset management

We act as collateral manager for several collateralized debt obligation (CDO) SPEs, which invest in leveraged bank-initiated term loans, high-yield bonds and mezzanine corporate debt. As collateral manager, we are engaged by the CDO SPE, pursuant to a Collateral Management Agreement, to advise the SPE on the purchase and sale of collateral assets it holds. For these advisory services, we are paid a pre-determined market-based fee, which is a percentage of assets held by the SPE.

The notional amount of the CDOs we managed at the end of fiscal 2002 was US$1.6 billion (2001 — US$1.3 billion). Although we have a nominal investment of US$9.5 million in the "first-loss" tranche of a US$300 million CDO, we provide no liquidity or credit support to these SPEs beyond this investment. The CDOs we manage may from time-to-time purchase collateral assets originated by us or other affiliates. The program documents covering the formation and operation of the individual CDOs provide strict guidelines for the purchase of such assets.

We recognize fee income from collateral management services and, where indicated, interest income from investments in individual CDOs.

2001 compared to 2000

The following discussion and analysis provides a comparison of our results of operations for the years ended October 31, 2001 and 2000. This discussion should be read in conjunction with the consolidated financial statements and related Notes on pages 67 to 96. 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

Net income from RBC Banking increased 10% to $1,174 million in 2001 from $1,064 million in 2000. ROE decreased 270 basis points to 16.8%.

Net income from RBC Insurance was up 68% to $173 million in 2001,reflecting acquisitions. ROE decreased from 38.6% to 20.0% due to higher allocation of capital in light of recent acquisitions.

Net income from RBC Investments was up 23% from 2000 to $508 million. ROE declined by 2,080 basis points to 27.0% due to higher allocation of capital as a result of recent acquisitions.

Net income from RBC Capital Markets decreased 30% to $349 million, reflecting a large increase in the provision for credit losses. ROE declined by 1,120 basis points to 9.6%, reflecting lower net income and the higher allocation of capital for recent acquisitions.

Net income from RBC Global Services was up 44% to $266 million reflecting fee growth from new business and value-added services added in the investor services business. ROE increased 980 basis points to 49.3%.

Other segment's net income improved to $(35) million from $(59)million in 2000. ROE decreased 1,600 basis points to (5.3)%.

Net interest income

Net interest income increased 23% to $6.5 billion in 2001 from $5.3 billion in 2000 partially due to the acquisition of Centura Banks,in June 2001 which added more interest-bearing assets and liabilities to the balance sheet.

Non-interest revenue

Non-interest revenue increased 22% to $8.2 billion in 2001, accounting for 56% of total revenue.

Non-interest expense

Non-interest expense increased 26% to $9.6 billion, partially reflecting the contribution of expenses from acquisitions and an increase of goodwill amortization expenses associated with these acquisitions.

Taxes

Our income taxes for 2001 were $1.4 billion, for an effective income tax rate of 34.7%. Income taxes were $1.4 billion in 2000, reflecting an effective income tax rate was 38.8%.

Provision for credit losses

The provision for credit losses increased 62% to $1,119 million in 2001 from $691 million in 2000, largely reflecting increases in business and government provisions for credit losses. The total allowance for loan losses was $2.3 billion or 1.3% of total loans and acceptances up from 1.1% in 2000.

Quarterly financial information

Selected financial information for the eight most recently completed quarters is shown on page 102.

Consolidated financial statements

Management's responsibility for financial reporting

The accompanying consolidated financial statements of Royal Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments. These consolidated financial statements were prepared in accordance with United States generally accepted accounting principles. Financial information appearing throughout this Annual Report is consistent with these consolidated financial statements. Management has also prepared consolidated financial statements for Royal Bank of Canada in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada, and these consolidated financial statements have also been provided to shareholders.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which ensures that the bank and its employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of the bank's operations.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the bank.

This Committee reviews the consolidated financial statements of the bank and recommends them to the board for approval. Other key responsibilities of the Audit Committee include reviewing the bank's existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. The bank's Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

At least once a year, the Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of the bank as deemed necessary to ensure that the provisions of the *Bank Act*, having reference to the safety of the depositors and shareholders of the bank, are being duly observed and that the bank is in sound financial condition.

Deloitte & Touche LLP and PricewaterhouseCoopers LLP, independent auditors appointed by the shareholders of the bank upon the recommendation of the Audit Committee, have performed an independent audit of the consolidated financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Gordon M. Nixon
President & Chief Executive Officer

Peter W. Currie
Vice-Chairman & Chief Financial Officer

Toronto, November 19, 2002

Auditors' report
To the shareholders of Royal Bank of Canada

We have audited the consolidated balance sheet of Royal Bank of Canada as at October 31, 2002 and 2001, and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended October 31, 2002. These consolidated financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the bank as at October 31, 2002 and 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2002, in accordance with United States generally accepted accounting principles.

We also reported separately on November 19, 2002, to the shareholders of the bank on our audit, conducted in accordance with Canadian generally accepted auditing standards, where we expressed an opinion without reservation on the October 31, 2002 and 2001, consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Deloitte & Touche LLP
PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, November 19, 2002

Consolidated balance sheet

As at October 31 (C$ millions)	2002	2001
Assets		
Cash resources		
Cash and due from banks	**$ 2,534**	$ 1,792
Interest-bearing deposits with banks	**18,759**	15,724
	21,293	17,516
Securities		
Trading account (pledged — $6,558 and $4,222)	**69,457**	58,413
Available for sale	**25,896**	22,687
	95,353	81,100
Assets purchased under reverse repurchase agreements	**35,831**	35,870
Loans		
Residential mortgage	**72,842**	67,444
Personal	**31,956**	32,511
Credit card	**4,914**	4,283
Business and government	**61,811**	66,939
	171,523	171,177
Allowance for loan losses	**(2,203)**	(2,278)
	169,320	168,899
Other		
Customers' liability under acceptances	**8,051**	9,923
Derivative-related amounts	**31,250**	28,642
Premises and equipment	**1,639**	1,598
Goodwill	**5,040**	4,952
Other intangibles	**665**	619
Other assets	**13,490**	13,364
	60,135	59,098
	$381,932	$362,483
Liabilities and shareholders' equity		
Deposits		
Canada		
Non-interest-bearing	**$ 23,222**	$ 22,397
Interest-bearing	**119,737**	118,161
International		
Non-interest-bearing	**2,969**	2,461
Interest-bearing	**99,112**	92,668
	245,040	235,687
Other		
Acceptances	**8,051**	9,923
Obligations related to securities sold short	**17,990**	16,037
Obligations related to assets sold under repurchase agreements	**21,109**	20,864
Derivative-related amounts	**32,737**	29,448
Other liabilities	**29,821**	23,979
	109,708	100,251
Subordinated debentures	**6,960**	6,861
Non-controlling interest in subsidiaries	**1,469**	1,479
Shareholders' equity		
Capital stock		
Preferred	**1,515**	1,990
Common (shares issued and outstanding — 665,257,068 and 674,020,927)	**7,039**	6,959
Retained earnings	**10,473**	9,311

Accumulated other comprehensive income	**(272)**	(55)
	18,755	18,205
	$381,932	$362,483

Gordon M. Nixon
President & Chief Executive Officer

Robert B. Peterson
Director

U.S. GAAP Royal Bank of Canada

Consolidated statement of income

For the year ended October 31 (C$ millions)	2002	2001	2000
Interest income			
Loans	**$ 10,463**	$ 12,032	$ 11,538
Trading account securities	**1,945**	2,143	1,519
Available for sale securities	**1,130**	1,138	1,150
Assets purchased under reverse repurchase agreements	**651**	1,163	1,078
Deposits with banks	**482**	831	824
	14,671	17,307	16,109
Interest expense			
Deposits	**5,709**	8,712	9,057
Other liabilities	**1,405**	1,688	1,429
Subordinated debentures	**406**	410	344
	7,520	10,810	10,830
Net interest income	**7,151**	6,497	5,279
Provision for credit losses	**1,065**	1,119	691
	6,086	5,378	4,588
Non-interest revenue			
Capital market fees	**1,866**	1,523	1,538
Trading revenues	**1,766**	1,820	1,540
Investment management and custodial fees	**1,179**	1,096	860
Deposit and payment service charges	**1,041**	887	756
Mutual fund revenues	**723**	692	624
Card service revenues	**285**	290	420
Foreign exchange revenue, other than trading	**277**	300	299
Insurance revenues	**255**	263	151
Mortgage banking revenues	**240**	206	—
Credit fees	**223**	237	212
Securitization revenues	**172**	125	104
Loss on sale of securities	**(95)**	(128)	(11)
Gain from divestitures	**—**	445	—
Other	**647**	399	187
	8,579	8,155	6,680
Non-interest expense			
Human resources	**6,263**	5,696	4,695
Occupancy	**788**	716	570
Equipment	**752**	713	664
Communications	**790**	679	695
Professional fees	**419**	411	267
Amortization of goodwill	**—**	252	80
Amortization of other intangibles	**72**	36	11
Other	**1,160**	1,138	646
	10,244	9,641	7,628
Net income before income taxes	**4,421**	3,892	3,640
Income taxes	**1,415**	1,350	1,412
Net income before non-controlling interest	**3,006**	2,542	2,228
Non-controlling interest in net income of subsidiaries	**108**	107	20
Net income	**$ 2,898**	$ 2,435	$ 2,208
Preferred share dividends	**98**	135	134
Net income available to common shareholders	**$ 2,800**	$ 2,300	$ 2,074
Average number of common shares (in thousands)	**672,571**	641,516	606,389
Earnings per share (in dollars)	**$ 4.16**	$ 3.58	$ 3.42
Average number of diluted common shares (in thousands)	**679,153**	647,216	609,865

Diluted earnings per share (in dollars)	**$ 4.12**	$ 3.55	$ 3.40

Consolidated statement of changes in shareholders' equity

For the year ended October 31 (C$ millions)	2002	2001	2000
Preferred shares			
Balance at beginning of year	**$ 1,990**	$ 2,001	$ 1,973
Issued	**—**	250	—
Redeemed for cancellation	**(464)**	(295)	—
Issuance costs, net of related income taxes	**—**	(3)	—
Translation adjustment on shares denominated in foreign currency	**(11)**	37	28
Balance at end of year	**1,515**	1,990	2,001
Common shares			
Balance at beginning of year	**6,959**	3,074	3,063
Issued	**233**	4,009	109
Issuance costs, net of related income taxes	**(1)**	(12)	—
Purchased for cancellation	**(152)**	(112)	(98)
Balance at end of year	**7,039**	6,959	3,074
Retained earnings			
Balance at beginning of year	**9,311**	8,314	7,495
Net income	**2,898**	2,435	2,208
Preferred share dividends	**(98)**	(135)	(134)
Common share dividends	**(1,022)**	(897)	(689)
Premium paid on common shares purchased for cancellation	**(612)**	(397)	(562)
Issuance costs, net of related income taxes	**(4)**	(9)	(4)
Balance at end of year	**10,473**	9,311	8,314
Accumulated other comprehensive income (loss), net of related income taxes			
Unrealized gains and losses on available for sale securities	**202**	190	(56)
Unrealized foreign currency translation gains and losses, net of hedging activities	**(54)**	(38)	(36)
Gains and losses on derivatives designated as cash flow hedges	**(127)**	(190)	—
Additional pension obligation	**(293)**	(17)	—
Balance at end of year	**(272)**	(55)	(92)
Shareholders' equity at end of year	**$18,755**	$18,205	$13,297
Comprehensive income, net of related income taxes			
Net income	**$ 2,898**	$ 2,435	$ 2,208
Other comprehensive income			
Change in unrealized gains and losses on available for sale securities	**12**	246	29
Change in unrealized foreign currency translation gains and losses	**(59)**	473	(2)
Impact of hedging unrealized foreign currency translation gains and losses	**43**	(475)	4
Cumulative effect of initial adoption of FAS 133	**—**	60	—
Change in gains and losses on derivatives designated as cash flow hedges	**(50)**	(250)	—
Reclassification to earnings of gains and losses on cash flow hedges	**113**	—	—
Additional pension obligation	**(276)**	(17)	—
Total comprehensive income	**$ 2,681**	$ 2,472	$ 2,239

Consolidated statement of cash flows

For the year ended October 31 (C$ millions)	2002	2001	2000
Cash flows from operating activities			
Net income	**$ 2,898**	$ 2,435	$ 2,208
Adjustments to determine net cash provided by (used in) operating activities			
Provision for credit losses	**1,065**	1,119	691
Depreciation	**388**	387	369
Restructuring	**—**	91	—
Amortization of goodwill and other intangibles	**72**	288	91
Deferred income taxes	**45**	139	(206)
Gain on sale of premises and equipment	**(35)**	(42)	(4)
Gain on divestitures	**—**	(445)	—
Gain on loan securitizations	**(54)**	(29)	—
Loss on sale of available for sale securities	**95**	128	11
Changes in operating assets and liabilities			
Net change in accrued interest receivable and payable	**(166)**	(375)	110
Current income taxes	**419**	(460)	(434)
Derivative-related assets	**(2,608)**	(9,299)	(4,183)
Derivative-related liabilities	**3,289**	10,872	3,355
Trading account securities	**(11,044)**	(8,707)	(13,539)
Obligations related to securities sold short	**1,953**	3,009	(5,867)
Other	**1,610**	(4,920)	(215)
Net cash used in operating activities	**(2,073)**	(5,809)	(17,613)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	**(3,035)**	(116)	5,125
Increase in loans, net of loan securitizations	**(3,360)**	(2,750)	(12,228)
Proceeds from loan securitizations	**1,691**	1,720	—
Proceeds from maturity of held to maturity securities	**—**	—	500
Purchases of held to maturity securities	**—**	—	(114)
Proceeds from sale of available for sale securities	**16,758**	12,542	11,033
Proceeds from maturity of available for sale securities	**15,717**	14,021	16,269
Purchases of available for sale securities	**(33,450)**	(27,975)	(24,385)
Net acquisitions of premises and equipment	**(390)**	(397)	(293)
Net proceeds from sale of real estate	**—**	57	—
Change in assets purchased under reverse repurchase agreements	**39**	(17,474)	1,969
Net cash used in acquisition of subsidiaries	**(99)**	(3,120)	(323)
Net proceeds from divestitures	**—**	478	—
Net cash used in investing activities	**(6,129)**	(23,014)	(2,447)
Cash flows from financing activities			
Issue of RBC Trust Capital Securities (RBC TruCS)	**—**	750	650
Increase in deposits — Canada	**2,402**	2,434	8,818
Increase in deposits — International	**4,997**	15,690	9,405
Issue of subordinated debentures	**635**	1,025	1,200
Maturity of subordinated debentures	**(101)**	(42)	(20)
Redemption of subordinated debentures	**(400)**	(538)	—
Issue of preferred shares	**—**	250	—
Redemption of preferred shares for cancellation	**(464)**	(295)	—
Issuance costs	**(5)**	(24)	(4)
Issue of common shares	**168**	657	59
Purchase of common shares for cancellation	**(764)**	(509)	(660)
Payment of dividends	**(1,104)**	(972)	(791)
Change in obligations related to assets sold under repurchase agreements	**245**	11,629	(391)
Change in short-term borrowings of subsidiaries	**3,335**	(387)	281
Net cash provided by financing activities	**8,944**	29,668	18,547
Net change in cash and due from banks	**742**	845	(1,513)
Cash and due from banks at beginning of year	**1,792**	947	2,460
Cash and due from banks at end of year	**$ 2,534**	$ 1,792	$ 947
Supplemental disclosure of cash flow information			
Amount of interest paid in year	**$ 8,229**	$ 11,149	$ 10,698
Amount of income taxes paid in year	**$ 738**	$ 1,443	$ 2,007

NOTE 1 Significant accounting policies

The accompanying consolidated financial statements are stated in Canadian dollars, the currency of the country in which we are incorporated and principally operate. These consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP) and prevailing practices within the banking industry in that country. We have also prepared consolidated financial statements in accordance with Canadian GAAP and these have been provided to shareholders.

GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below:

Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. We have accounted for the acquisition of subsidiaries using the purchase method. The equity method is used to account for investments in associated corporations or joint ventures in which we have significant influence or exercise joint control, respectively. These investments are reported in Other assets. We have included in Non-interest revenue our share of earnings, and gains and losses realized on dispositions of these investments.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at average rates of exchange for the year.

Unrealized foreign currency translation gains and losses on investments in foreign branches, subsidiaries and associated corporations where the functional currency is other than the Canadian dollar are recorded in Other comprehensive income. On disposal of such investments, the accumulated net translation gain or loss is included in Non-interest revenue. Other foreign currency translation gains and losses (net of hedging activities) are included in Non-interest revenue.

Securities

Securities are classified, based on management's intentions, as Trading account or Available for sale.

Trading account securities, which are purchased for sale in the near term, are reported at estimated fair value. Obligations to deliver trading account securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realized and unrealized gains and losses on these securities are recorded as Trading revenues in Non-interest revenue. Dividend and interest income accruing on Trading account securities is recorded in Interest income. Interest expense accruing on interest-bearing securities sold short is recorded in Interest expense.

Available for sale securities include securities that may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs. These securities are carried at estimated fair value. Unrealized gains and losses on these securities, net of income taxes, are reported in Other comprehensive income to the extent not hedged by derivatives. Dividend and interest income is recorded in Interest income. Available for sale securities include tax-exempt securities, which are client financings that have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage.

Gains and losses realized on disposal of Available for sale securities, which are calculated on an average cost basis, and writedowns to reflect other than temporary impairment in value are included in Loss on sale of securities in Non-interest revenue.

Assets purchased under reverse repurchase agreements and sold under repurchase agreements

We purchase securities under agreements to resell (reverse repurchase agreements) and sell securities under agreements to repurchase (repurchase agreements). Reverse repurchase agreements are treated as collateralized lending transactions and are carried on the Consolidated balance sheet at the amounts at which the securities were initially acquired. Repurchase agreements are treated as collateralized borrowing transactions and are carried on the Consolidated balance sheet at the amounts at which the securities were initially sold, plus accrued interest on interest-bearing securities. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in Interest income and Interest expense, respectively.

Loans

Loans are stated net of an allowance for loan losses and unearned income, which comprises unearned interest and unamortized loan fees.

Loans are classified as nonaccrual when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest. Whenever a payment is 90 days past due, loans other than credit card balances and Canadian government guaranteed loans are classified as nonaccrual unless they are fully secured or collection efforts are reasonably expected to result in repayment of debt. Credit card balances are charged off when a payment is 180 days in arrears. Canadian government guaranteed loans are classified as nonaccrual when the loan is contractually 365 days in arrears. When a loan is identified as nonaccrual, the accrual of interest is discontinued and any previously accrued but unpaid interest on the loan is charged to the Provision for credit losses. Interest received on nonaccrual loans is credited to the Allowance for loan losses on that loan. Nonaccrual loans are returned to performing status when all amounts including interest have been collected, all charges for loan impairment have been reversed and the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest.

When a loan has been identified as nonaccrual, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In subsequent periods, recoveries of amounts previously charged off and any increase in the carrying value of the loan is credited to the Allowance for loan losses on the Consolidated balance sheet. Where a portion of a loan is charged off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal or interest, and payments are not 90 days past due.

Collateral is obtained if, based on an evaluation of the client's creditworthiness, it is considered necessary for the client's overall borrowing facility.

Assets acquired in respect of problem loans are recorded at the lower of their fair value or the carrying value of the loan at the date of transfer. Any excess of the carrying value of the loan over the fair value of the assets acquired is recognized by a charge to the Allowance for loan losses.

Fees that relate to such activities as originating, restructuring or renegotiating loans are deferred and recognized as Interest income over the expected term of such loans. Where there is reasonable expectation that a loan will result, commitment and standby fees are also recognized as Interest income over the expected term of the resulting loan. Otherwise, such fees are recorded as Other liabilities and amortized to Non-interest revenue over the commitment or standby period.

Allowance for credit losses

The allowance for credit losses is maintained at a level that management considers adequate to absorb identified credit related losses in the portfolio as well as losses that have been incurred, but are not yet identifiable. The allowance relates primarily to loans but also to deposits with banks, derivatives and other credit instruments such as acceptances, guarantees and letters of credit. 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 allowance is determined based on management's identification and evaluation of problem accounts; estimated probable losses that exist on the remaining portfolio; and on other factors including the composition and quality of the portfolio, and changes in economic conditions.

Allocated specific

Allocated specific allowances are maintained to absorb losses on both specifically identified borrowers and other more homogeneous loans that have been recognized as nonaccrual. The losses relating to identified large business and government debtors are estimated based on the present value of expected payments on an account-by-account basis. The losses relating to other portfolio-type products, excluding credit cards, are based on net charge-off experience over an economic cycle. For credit cards, no specific allowance is maintained as balances are charged off if no payment has been received after 180 days. Personal loans are generally charged off at 150 days past due. Charge-offs for other loans are generally recorded when there is no realistic prospect of full recovery.

Allocated general

The allocated general allowance represents the best estimate of probable losses within the portion of the portfolio that has not yet been specifically identified as nonaccrual. This amount is established through the application of expected loss factors to outstanding and undrawn facilities. The allocated general allowance for large business and government loans and acceptances is based on the application of expected default and loss factors, determined by statistical loss migration analysis, delineated by loan type and rating. For more homogeneous portfolios, such as residential mortgages, small business loans, personal loans and credit cards, the determination of the allocated general allowance is done on a product portfolio basis. The losses are determined by the application of loss ratios determined through the analysis of loss migration and charge-off trends over an economic cycle, adjusted to reflect changes in the product offerings and credit quality of the pool.

Unallocated

The unallocated allowance is based on management's assessment of probable, unidentified losses in the portfolio that have not been captured in the determination of the allocated specific or allocated general allowances. This assessment includes consideration of general economic and business conditions and regulatory requirements affecting key lending operations, recent loan loss experience, and trends in credit quality and concentrations. This allowance also reflects model and estimation risks and does not represent future losses or serve as a substitute for allocated allowances.

Acceptances

Acceptances are short-term negotiable instruments issued by our customers to third parties, which we guarantee. The potential liability under acceptances is reported as a liability in the Consolidated balance sheet. The recourse against the customer in the case of a call on these commitments is reported as a corresponding asset of the same amount in Other assets. Fees earned are reported in Non-interest revenue.

Derivatives

Derivatives are used in sales and trading activities to provide clients with the ability to manage their market risk exposures. Derivatives are also used to manage our exposures to interest, currency and other market risks. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements, foreign currency and interest rate options, and credit derivatives. All derivatives, including derivatives embedded in financial instruments or contracts that are not clearly and closely related to the economic characteristics of the host financial instrument or contract, are recorded at fair value on the Consolidated balance sheet.

When used in sales and trading activities, the realized and unrealized gains and losses on derivatives are recognized in Non-interest revenue. Market values are determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. A portion of the market value is deferred within Derivative-related amounts in liabilities and amortized to income over the life of the instruments to cover credit risk and ongoing direct servicing costs. Unrealized gains and losses are generally reported on a gross basis as Derivative-related amounts in assets and liabilities, except where we have both the legal right and intent to settle these amounts simultaneously in which case they are presented on a net basis. Margin requirements and premiums paid are also included in Derivative-related amounts in assets, while premiums received are shown in Derivative-related amounts in liabilities.

When derivatives are used to manage our own exposures, we determine for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a fair value hedge, a cash flow hedge, or a hedge of foreign currency exposure of net investment in a foreign operation. The hedge is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued.

Non-trading derivatives that do not qualify for hedge accounting are carried at fair value on the Consolidated balance sheet, with changes in fair value recorded in Non-interest revenue.

Fair value hedge

Fair value hedge transactions predominantly use interest rate swaps to hedge the changes in the fair value of an asset, liability or firm commitment. The carrying amount of the hedged item is adjusted by gains or losses attributable to the hedged risk and recorded in Non-interest revenue. This unrealized gain or loss is offset by changes in the fair value of the derivative.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, the derivative is terminated or sold, or on the sale or early termination of the hedged item. The previously hedged asset or liability is no longer adjusted for changes in fair value. Cumulative fair value adjustments to the carrying amount of the hedged item are amortized into Net interest income over the remaining term of the original hedge relationship.

Cash flow hedge

Cash flow hedge transactions predominantly use interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. The effective portion of the changes in the fair value of the derivative is reported in Other comprehensive income. The ineffective portion is reported in Non-interest revenue. The amounts recognized as Other comprehensive income for cash flow hedges are reclassified to Net interest income in the periods in which Net interest income is affected by the variability in the cash flows of the hedged item.

NOTE 1 Significant accounting policies (continued)

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or the derivative is terminated or sold. The amounts previously recognized in Accumulated other comprehensive income are reclassified to Net interest income in the periods in which Net interest income is affected by the variability in the cash flows of the hedged item. On the sale or early termination of the hedged item, gains and losses are reclassified immediately to Non-interest revenue.

Hedges of net foreign currency investments in subsidiaries

Foreign exchange forward contracts and U.S. dollar liabilities are used to manage exposures from subsidiaries, branches and associated companies having a functional currency other than the Canadian dollar. Foreign exchange gains and losses on these hedging instruments are recorded in Other comprehensive income.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line basis over the estimated useful lives of the assets, which are 25 to 50 years for buildings, 3 to 10 years for computer equipment, 7 to 10 years for furniture, fixtures and other equipment, and lease term plus first option period for leasehold improvements. Gains and losses on disposal are recorded in Non-interest revenue.

Business combinations, goodwill and other intangibles

Effective November 1, 2001, we adopted Statement of Financial Accounting Standards, *Goodwill and Other Intangible Assets* (FAS 142) and Statement of Financial Accounting Standards, *Business Combinations* (FAS 141).

The *Business Combinations* standard requires that all business combinations be accounted for using the purchase method. Identifiable intangible assets are recognized separately from Goodwill and included in Other intangibles. Goodwill represents the excess of the price paid for the acquisition of subsidiaries over the fair value of the net assets acquired. Under the *Goodwill and Other Intangible Assets* standard, goodwill and indefinite life intangibles are no longer amortized but are subject to fair value impairment tests on at least an annual basis. Any impairment of goodwill or intangibles will be recognized as Non-interest expense in the period of impairment. Other intangibles with a finite life are amortized over their estimated useful lives and also tested for impairment.

Income taxes

We use the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book purposes compared with tax purposes. Accordingly, a deferred income tax asset or liability is determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expense are expected to be realized. Income taxes on the consolidated statement of income include the current and deferred portions of the expense. Income taxes applicable to items charged or credited to Shareholders' equity are netted with such items.

Net deferred income taxes accumulated as a result of temporary differences are included in Other assets. A valuation allowance is established to reduce deferred income tax assets to the amount expected to be realized. In addition, the consolidated statement of income contains items that are non-taxable or non-deductible for income tax purposes and, accordingly, cause the income tax provision to be different than what it would be if based on statutory rates.

Pensions and other postretirement benefits

We offer a number of benefit plans which provide pension and other benefits to qualified employees. These plans include statutory pension plans, supplemental pension plans, defined contribution plans and health, dental and life insurance plans.

We fund our statutory pension plans and health, dental and life insurance plans annually based on actuarially determined amounts needed to satisfy employee benefit entitlements under current pension regulations. These pension plans provide benefits based on years of service, contributions and average earnings at retirement.

Actuarial valuations are performed on a regular basis to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Investments held by the pension funds primarily comprise of equity securities, bonds and debentures. Pension fund assets are valued at fair value.

Pension benefit expense consists of the cost of employee pension benefits for the current year's service, interest cost on the liability, expected investment return on the market-related value of plan assets and the amortization of both unrecognized prior service costs and unrecognized net actuarial gains or losses. Amortization is charged over the expected average remaining service life of employee groups covered by the plan.

The cumulative excess of pension fund contributions over the amounts recorded as expenses is reported as a prepaid pension benefit cost in Other assets. The cumulative excess of pension expense over pension fund contributions is reported as accrued pension benefit expense in Other liabilities. In addition, other post retirement benefits are also reported in Other liabilities.

Defined contribution plan costs are recognized in income for services rendered by employees during the period.

Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and (i) an asset has been recognized as prepaid pension benefit cost, (ii) the liability already recognized as unfunded accrued pension benefit expense is less than the unfunded accumulated benefit obligation, or (iii) no accrued pension benefit expense or prepaid pension benefit cost has been recognized. If an

additional liability is required to be recognized and it exceeds unrecognized prior service cost, the excess is reported as Additional pension obligation in Other comprehensive income.

Assets under administration and assets under management

We administer and manage assets owned by clients that are not reflected on the Consolidated balance sheet. Asset management fees are earned for providing investment management services and mutual fund products. Asset administration fees are earned for providing trust, estate administration, custodial services and administration of assets securitized. Fees are recognized and reported in Non-interest revenue as the services are provided.

Loan securitization

We periodically securitize loans by selling loans to independent special purpose entities or trusts that issue securities to investors. These transactions are accounted for as sales when we are deemed to have surrendered control over such assets and have received in exchange consideration other than beneficial interests in these transferred assets. We often retain interests in the securitized loans, such as interest-only strips or servicing rights, and in some cases cash reserve accounts. Gains on these transactions are recognized in Non-interest revenues and are dependent in part on the previous carrying amount of the loans involved in the transfer, which is allocated between the loans sold and the retained interests, based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used, if available. When quotes are not available for retained interests, we generally determine fair value based on the present value of expected future cash flows using management's best estimates of key assumptions such as payment rates, excess spread, credit losses and discount rates commensurate with the risks involved.

Generally, the loans are transferred on a fully serviced basis. As a result, we recognize a servicing liability on the date of transfer and amortize this liability to income over the term of the transferred loans.

Retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that we would not recover substantially all of our recorded investment, are classified as Available for sale securities.

Insurance operations

Earned premiums, fees and changes in claims and policy benefit liabilities are included in Non-interest revenue. Investments are included in Available for sale securities and claims and policy benefit liabilities are included in Other liabilities. Investment income is included in Interest income and administrative expenses are included in Non-interest expense.

Premiums from long-duration contracts, primarily life insurance, are recognized as income when due, except for universal life and investment-type contracts, the premiums on which are credited to policyholder balances and included in Other liabilities. Premiums from short-duration contracts, primarily property and casualty, and fees for administrative services and investment-type contracts are recognized over the related contract period.

Claims and policy benefit liabilities represent estimates for future insurance policy benefits. Liabilities for life insurance contracts except universal life and investment-type contracts are determined using the net level premium method, which incorporates assumptions for mortality, morbidity, policy lapses and surrenders, investment yields, policy dividends and operating expenses. These assumptions are not revised unless it is determined that existing deferred acquisition costs cannot be recovered. For universal life and investment-type contracts, the liability is equal to the policyholder account values and includes a net level premium reserve for some contracts. Liabilities for property and casualty insurance include unearned premiums, representing the unexpired portion of premiums, and estimated provisions for reported and unreported claims incurred.

Deferred acquisition costs are included in Other assets and amortized to Non-interest revenue and Non-interest expense. Amortization of such costs is in proportion to premium revenue for long-duration contracts, estimated gross profits for universal life and investment-type contracts, and is over the policy term for short-duration contracts.

Value of business acquired represents the present value of estimated net cash flows embedded in existing contracts acquired by us and is included in Other assets. It is amortized in the same manner as deferred acquisition costs for life insurance contracts.

Significant future accounting changes

Stock-based compensation

The Financial Accounting Standards Board issued a proposed statement *Accounting for Stock-Based Compensation — Transition and Disclosure*. This proposal is an amendment to FAS 123 *Accounting for Stock-Based Compensation* and outlines alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition to the prospective application of the fair value recognition provision, retroactive restatement and recognition of stock-based compensation costs as if the fair value provision had been applied to all awards granted, modified or settled after fiscal years beginning after December 15, 1994, is also permitted.

Consolidation of special purpose entities

The Financial Accounting Standards Board issued an Exposure Draft, *Consolidation of Certain Special-Purpose Entities*, on June 28, 2002. The Exposure Draft is an interpretation of Accounting Research Bulletin 51, *Consolidated Financial Statements*, and provides new guidance on determining who is a primary beneficiary of the special purpose entities and will therefore be required to consolidate the special purpose entities. The effect of this Exposure Draft cannot be determined as this time.

NOTE 2 Significant acquisitions and dispositions

2002

Acquisitions

During 2002, we completed the acquisitions of the private banking business of Barclays PLC in the Americas (Barclays) and Eagle Bancshares, Inc. (Eagle Bancshares). Goodwill has been estimated using the best available information as at the date of these financial statements and may be adjusted for up to one year after the closing date of the acquisition in order to incorporate refinements to the initial fair value estimates of assets and liabilities acquired. The details of these acquisitions are as follows:

	Barclays	Eagle Bancshares
Acquisition date	June 28, 2002	July 22, 2002
Business segment	RBC Investments	RBC Banking
Percentage of shares acquired	—	100%
Purchase consideration	Assets were purchased with an initial cash payment of approximately US$111 million. Additional consideration that is contingent upon the amount of business retained is expected to be paid next year and will be recorded as an intangible asset.	Each Eagle Bancshares common share was purchased for US$26 cash
Fair value of tangible assets acquired	$ 741	$ 1,844
Fair value of liabilities assumed	(640)	(1,764)

Fair value of identifiable net tangible assets acquired	101	80
Core deposit intangibles (1)	—	22
Customer lists and relationships (1)	68	—
Goodwill	—	133
Total purchase consideration	$ 169	$ 235

(1) Core deposit intangibles and customer lists and relationships are amortized on a straight-line basis over an estimated average useful life of 10 and 15 years, respectively.

NOTE 2 Significant acquisitions and dispositions (continued)

Pending acquisitions

Acquisition of certain U.S. operations of Generali Group

On April 30, 2002, RBC Insurance announced an agreement to acquire certain assets of Generali Group, the Trieste, Italy-based insurer. These assets consist of the operations of Business Men's Assurance Company of America (BMA) and include an inforce block of approximately 150,000 traditional life insurance policies and annuities as well as the infrastructure for manufacturing variable insurance products. In a related transaction, RBC Dain Rauscher plans to acquire BMA's mutual fund company, Jones & Babson Inc.

The purchase price for these businesses is estimated at approximately US$220 million. The acquisitions are subject to regulatory approvals, approval by shareholders of advisory clients of Jones & Babson Inc., and other customary closing conditions.

Acquisition of Admiralty Bancorp, Inc.

On August 29, 2002, RBC Centura Banks, Inc. (Centura), a wholly owned subsidiary of Royal Bank of Canada, and Admiralty Bancorp, Inc. (Admiralty) announced that they have signed a definitive merger agreement by which Centura will acquire Admiralty. The cash consideration expected to be paid with respect to the acquisition is approximately US$150 million. The excess of approximately US$100 million of the purchase price over the estimated fair value of the net tangible assets acquired will first be allocated to identifiable intangible assets, with the residual allocated to Goodwill. The acquisition is subject to regulatory approvals, approval by shareholders of Admiralty, and other customary closing conditions.

2001

Acquisitions

During 2001, we completed the acquisitions of Liberty Life Insurance Company and Liberty Insurance Services Corporation (Liberty), Dain Rauscher Corporation (Dain Rauscher), Centura Banks, Inc. (Centura) and Tucker Anthony Sutro Corporation (Tucker Anthony Sutro). We accounted for all of these acquisitions using the purchase method. The details of these acquisitions are as follows:

	Liberty	Dain Rauscher	Centura	Tucker Anthony Sutro
Acquisition date	November 1, 2000	January 10, 2001	June 5, 2001	October 31, 2001
Business segment	RBC Insurance	RBC Investments & RBC Capital Markets	RBC Banking	RBC Investments & RBC Capital Markets
Percentage of shares acquired	100%	100%	100%	100%
Purchase consideration	Assets were purchased with a dividend of US$70 million paid from Liberty Life Insurance Company plus US$580 million cash	Each Dain Rauscher common share was purchased for US$95 cash	Approximately 67 million Royal Bank common shares were issued, valued at $49.20 each	Each Tucker Anthony Sutro common share was purchased for US$24 cash
Fair value of tangible assets acquired	$ 2,858	$ 3,719	$ 18,270	$ 831
Fair value of liabilities assumed	(2,095)	(3,425)	(17,214)	(580)
Fair value of identifiable net tangible assets acquired	763	294	1,056	251
Core deposit intangibles (1)	—	—	395	—
Mortgage servicing rights (1)	—	—	12	—
Goodwill	127	1,544	1,868	692
Total purchase consideration	$ 890	$ 1,838	$ 3,331	$ 943

(1) Core deposit intangibles and mortgage servicing rights are amortized on a straight-line basis over an estimated average useful life of 10 and 5 years, respectively.

Dispositions

During 2001, we sold our institutional asset management business operated by RT Capital Management Inc. and realized a pre-tax gain of $313 million (after-tax $251 million) recorded in Non-interest revenue.

In addition, we divested certain other businesses and realized a pre-tax gain of $132 million (after-tax $111 million) recorded in Non-interest revenue.

NOTE 3 Results by business and geographic segment

2002	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income on taxable equivalent basis	$ 5,576	$ 223	$ 371	$ 553	$ 136	$ 332	$ 7,191	$ 5,550	$ 1,262	$ 379
Taxable equivalent adjustment	19	—		21	—	—	40	24	16	—
Net interest income	5,557	223	371	532	136	332	7,151	5,526	1,246	379
Provision for credit losses	626	—	(1)	465	10	(35)	1,065	529	440	96
	4,931	223	372	67	126	367	6,086	4,997	806	283
Non-interest revenue	2,090	357	3,276	2,142	672	42	8,579	4,318	3,125	1,136
Non-interest expense	4,520	399	3,144	1,627	548	6	10,244	5,747	3,670	827
Net income before income taxes	2,501	181	504	582	250	403	4,421	3,568	261	592
Income taxes	947	(9)	158	143	77	99	1,415	1,318	49	48
Non-controlling interest	8	—	—	—	—	100	108	100	2	6
Net income (loss)	$ 1,546	$ 190	$ 346	$ 439	$ 173	$ 204	$ 2,898	$ 2,150	$ 210	$ 538
Total average assets	$156,500	$ 6,900	$ 15,100	$180,700	$ 2,400	$10,100	$371,700	$226,800	$75,800	$69,100

2001	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income on taxable equivalent basis	$ 5,349	$ 206	$ 384	$ 429	$ 148	$ 13	$ 6,529	$ 5,595	$ 485	$ 449
Taxable equivalent adjustment	6	—	—	21	—	5	32	30	2	—
Net interest income	5,343	206	384	408	148	8	6,497	5,565	483	449
Provision for credit losses	732	—	2	407	(2)	(20)	1,119	757	379	(17)
	4,611	206	382	1	150	28	5,378	4,808	104	466
Non-interest revenue	1,873	336	2,859	2,352	710	25	8,155	4,862	2,404	889
Non-interest expense	4,388	375	2,510	1,804	485	79	9,641	6,214	2,712	715
Net income before income taxes	2,096	167	731	549	375	(26)	3,892	3,456	(204)	640
Income taxes	912	(6)	223	200	109	(88)	1,350	1,402	(68)	16
Non-controlling interest	10	—	—	—	—	97	107	97	2	8
Net income (loss)	$ 1,174	$ 173	$ 508	$ 349	$ 266	$ (35)	$ 2,435	$ 1,957	$ (138)	$ 616
Total average assets	$143,000	$ 6,300	$ 11,300	$159,500	$ 2,400	$9,100	$331,600	$212,700	$50,900	$68,000

2000	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income on taxable equivalent basis	$ 4,705	$ 84	$ 359	$ 43	$ 160	$ (44)	$ 5,307	$ 5,029	$ (17)	$ 295
Taxable equivalent adjustment	6	—	—	22	—	—	28	28	—	—

Net interest income	4,699	84	359	21	160	(44)	5,279	5,001	(17)	295
Provision for credit losses	649	—	(1)	91	(21)	(27)	691	646	99	(54)
	4,050	84	360	(70)	181	(17)	4,588	4,355	(116)	349
Non-interest revenue	1,569	163	1,958	2,287	691	12	6,680	4,962	856	862
Non-interest expense	3,776	173	1,666	1,456	547	10	7,628	6,245	640	743
Net income before income taxes	1,843	74	652	761	325	(15)	3,640	3,072	100	468
Income taxes	774	(29)	239	259	140	29	1,412	1,434	29	(51)
Non-controlling interest	5	—	—	—	—	15	20	15	—	5
Net income (loss)	$ 1,064	$ 103	$ 413	$ 502	$ 185	$ (59)	$ 2,208	$ 1,623	$ 71	$ 514
Total average assets	$129,700	$ 2,200	$ 8,000	$131,900	$ 1,600	$10,700	$284,100	$198,800	$34,800	$50,500

For management reporting purposes, our operations are grouped into the business segments of RBC Banking, RBC Insurance, RBC Investments, RBC Capital Markets and RBC Global Services. The Other segment mainly comprises Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

The business segments operate on an arm's-length basis with respect to the purchase and sale of intra-group services. Transfer pricing of funds sold or purchased, commissions, or charges and credits for services rendered are generally at market rates.

For geographic reporting purposes our operations are grouped into Canada, United States and Other International. Canadian-based activities of international money market units are included in United States and Other International.

NOTE 4 Goodwill and Other intangibles

Effective November 1, 2001, we adopted Statement of Financial Accounting Standards, *Goodwill and Other Intangible Assets* (FAS 142). Under this standard, goodwill impairment is assessed at the reporting unit level on at least an annual basis. Reporting units comprise business operations with similar economic characteristics and strategies and may represent either a business or a business unit within a business segment.

We have completed both the transitional and annual test for goodwill impairment in all reporting units and have determined that goodwill is not impaired.

The projected amortization of Other intangibles for each of the years ending October 31, 2003 to October 31, 2007 is approximately $76 million.

Goodwill

	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Total
Balance at October 31, 2000	$ 200	$ 4	$ 273	$ 93	$ 123	$ 693
Goodwill acquired during the year	1,868	183	1,618	618	10	4,297
Amortization of goodwill during the year	(61)	(15)	(81)	(43)	(14)	(214)
Goodwill impairment	—	—	(38)	—	—	(38)
Other adjustments (1)	98	24	39	55	(2)	214
Balance at October 31, 2001	2,105	196	1,811	723	117	4,952
Goodwill acquired during the year	143	—	—	—	2	145
Other adjustments (1)	(19)	(9)	(19)	(12)	2	(57)
Balance at October 31, 2002	$ 2,229	$ 187	$ 1,792	$ 711	$ 121	$ 5,040

(1) Other adjustments include foreign exchange translations on non-Canadian dollar denominated goodwill and certain other adjustments.

Other intangibles

	2002			2001		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Core deposit intangibles	**$ 423**	**$ (50)**	**$ 373**	$ 412	$ (17)	$ 395
Customer lists and relationships	**318**	**(52)**	**266**	233	(30)	203
Mortgage servicing rights	**41**	**(18)**	**23**	17	(1)	16
Other intangibles	**5**	**(2)**	**3**	7	(2)	5
Total	**$ 787**	**$ (122)**	**$ 665**	$ 669	$ (50)	$ 619

The following table discloses a reconciliation ofreported net income, earnings per share and diluted earnings per share to the amounts adjusted for the exclusion of Amortization of goodwill, net of related income taxes.

	2002	2001	2000
Net income:			
Reported net income	**$ 2,898**	$ 2,435	$ 2,208
Amortization of goodwill, net of related income taxes	**—**	250	77
Adjusted net income	**$ 2,898**	$ 2,685	$ 2,285
Earnings per share:			
Reported earnings per share	**$ 4.16**	$ 3.58	$ 3.42
Amortization of goodwill, net of related income taxes	**—**	.39	.13
Adjusted earnings per share	**$ 4.16**	$ 3.97	$ 3.55
Diluted earnings per share:			
Reported diluted earnings per share	**$ 4.12**	$ 3.55	$ 3.40
Amortization of goodwill, net of related income taxes	**—**	.39	.13

Adjusted diluted earnings per share	**$ 4.12**	$ 3.94	$ 3.53

NOTE 5 Securities

	Term to maturity (1)						
	Under 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	2002 Total	2001 Total
Trading account (2)							
Canadian government debt	**$ 5,226**	**$ 4,344**	**$ 1,533**	**$ 1,572**	**$ —**	**$12,675**	$13,024
U.S. Treasury and other U.S. agencies	**278**	**720**	**593**	**24**	**—**	**1,615**	1,148
Other OECD government debt	**618**	**1,223**	**1,254**	**738**	**—**	**3,833**	2,413
Mortgage-backed securities	**74**	**125**	**86**	**327**	**—**	**612**	689
Asset-backed securities	**65**	**248**	**2,704**	**3,522**	**—**	**6,539**	4,428
Other debt	**9,253**	**4,265**	**2,001**	**2,906**	**579**	**19,004**	20,785
Equities	**—**	**—**	**—**	**—**	**25,179**	**25,179**	15,926
	15,514	**10,925**	**8,171**	**9,089**	**25,758**	**69,457**	58,413
Available for sale (2)							
Canadian government debt							
Amortized cost	**1,943**	**2,826**	**503**	**247**	**—**	**5,519**	4,623
Estimated fair value	**1,945**	**2,883**	**510**	**275**	**—**	**5,613**	4,708
Yield (3)	**4.0%**	**4.5%**	**5.3%**	**6.6%**	**—**	**4.5%**	4.9%
U.S. Treasury and other U.S. agencies							
Amortized cost	**544**	**1,204**	**319**	**1**	**—**	**2,068**	2,030
Estimated fair value	**552**	**1,280**	**355**	**1**	**—**	**2,188**	2,118
Yield (3)	**4.0%**	**5.0%**	**3.9%**	**6.0%**	**—**	**4.6%**	4.8%
Other OECD government debt							
Amortized cost	**2,308**	**291**	**6**	**—**	**—**	**2,605**	1,561
Estimated fair value	**2,324**	**303**	**6**	**—**	**—**	**2,633**	1,573
Yield (3)	**.3%**	**3.7%**	**4.7%**	**—**	**—**	**.7%**	1.2%
Mortgage-backed securities							
Amortized cost	**1,126**	**2,730**	**294**	**435**	**—**	**4,585**	4,531
Estimated fair value	**1,136**	**2,782**	**312**	**457**	**—**	**4,687**	4,676
Yield (3)	**5.0%**	**5.0%**	**7.2%**	**6.5%**	**—**	**5.3%**	5.6%
Asset-backed securities							
Amortized cost	**—**	**98**	**154**	**75**	**—**	**327**	414
Estimated fair value	**—**	**98**	**163**	**83**	**—**	**344**	434
Yield (3)	**—**	**8.3%**	**6.8%**	**6.6%**	**—**	**7.2%**	8.2%
Other debt							
Amortized cost	**2,304**	**1,815**	**593**	**4,198**	**159**	**9,069**	7,716
Estimated fair value	**2,300**	**1,853**	**612**	**4,267**	**159**	**9,191**	7,760
Yield (3)	**2.3%**	**4.1%**	**6.1%**	**5.4%**	**5.1%**	**4.4%**	5.6%
Equities							
Cost	**—**	**—**	**—**	**—**	**1,272**	**1,272**	1,382
Estimated fair value	**—**	**—**	**—**	**—**	**1,240**	**1,240**	1,418
Amortized cost	**8,225**	**8,964**	**1,869**	**4,956**	**1,431**	**25,445**	22,257
Estimated fair value	**8,257**	**9,199**	**1,958**	**5,083**	**1,399**	**25,896**	22,687
Total carrying value of securities (2)	**$23,771**	**$20,124**	**$10,129**	**$14,172**	**$27,157**	**$95,353**	$81,100

(1) Actual maturities may differ from contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.
(2) Trading account and Available for sale securities are carried at estimated fair value.
(3) The weighted average yield is based on the carrying value at the end of the year for the respective securities.

Unrealized gains and losses on Available for sale securities

	2002				2001			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Canadian government debt	**$ 5,519**	**$ 97**	**$ (3)**	**$ 5,613**	$ 4,623	$ 85	$ —	$ 4,708

U.S. Treasury and other U.S. agencies	**2,068**	**120**	**—**	**2,188**	2,030	88	—	2,118
Other OECD government debt	**2,605**	**28**	**—**	**2,633**	1,561	15	(3)	1,573
Mortgage-backed securities	**4,585**	**102**	**—**	**4,687**	4,531	145	—	4,676
Asset-backed securities	**327**	**28**	**(11)**	**344**	414	25	(5)	434
Other debt	**9,069**	**201**	**(79)**	**9,191**	7,716	169	(125)	7,760
Equities	**1,272**	**28**	**(60)**	**1,240**	1,382	104	(68)	1,418
	$25,445	**$ 604**	**$ (153)**	**$25,896**	$22,257	$ 631	$ (201)	$22,687

Realized gains and losses on sale of Available for sale securities

	2002	2001	2000
Realized gains	**$ 102**	$ 106	$ 106
Realized losses	**(197)**	(234)	(117)
Loss on sale of securities	**$ (95)**	$ (128)	$ (11)

NOTE 6 Loans

	2002	2001
Canada (1)		
Residential mortgage	**$ 67,700**	$ 64,066
Personal	**25,918**	27,202
Credit card	**4,740**	4,110
Business and government	**29,832**	32,739
	128,190	128,117
United States (1)		
Residential mortgage	**4,353**	2,666
Personal	**5,269**	4,621
Credit card	**125**	128
Business and government	**21,418**	22,145
	31,165	29,560
Other International (1)		
Residential mortgage	**789**	712
Personal	**769**	688
Credit card	**49**	45
Business and government	**10,561**	12,055
	12,168	13,500
Total loans (2)	**171,523**	171,177
Allowance for loan losses	**(2,203)**	(2,278)
Total loans net of allowance for loan losses	**$169,320**	$168,899

(1) Loans in Canada, United States and Other International include all loans booked in those locations, regardless of currency or residence of borrower.

(2) Loans are net of unearned income of $131 million (2001 – $130 million).

Loan maturities and rate sensitivity 2002

	Maturity term				Rate sensitivity			
	Under 1 year	1 to 5 years	Over 5 years	Total	Floating	Fixed term	Non-rate-sensitive	Total
Residential mortgage	**$ 27,491**	**$44,057**	**$1,294**	**$ 72,842**	**$ 8,128**	**$ 64,583**	**$ 131**	**$ 72,842**
Personal	**30,363**	**1,486**	**107**	**31,956**	**21,934**	**9,716**	**306**	**31,956**
Credit card	**4,914**	**–**	**–**	**4,914**	**–**	**3,326**	**1,588**	**4,914**
Business and government	**45,046**	**13,242**	**3,523**	**61,811**	**14,054**	**45,906**	**1,851**	**61,811**
Total loans	**$107,814**	**$58,785**	**$4,924**	**171,523**	**$44,116**	**$123,531**	**$3,876**	**171,523**
Allowance for loan losses				**(2,203)**				**(2,203)**
Total loans net of allowance for loan losses				**$169,320**				**$169,320**

Nonaccrual loans

	2002	2001
Residential mortgage	**$ 131**	$ 179
Personal	**306**	325
Business and government	**346**	372
	783	876
Individually impaired business and government	**1,505**	1,589
	$2,288	$2,465

Allowance for impaired loans	**$ 555**	$ 614
Average balance of impaired loans (1)	**$1,607**	$1,190

(1) For the year ended October 31, 2000, the average balance of impaired loans was $941 million.

Allowance for loan losses

	2002	2001	2000
Allowance for credit losses at beginning of year	**$ 2,392**	$ 1,975	$1,900
Charge-offs	**(1,457)**	(1,125)	(839)
Recoveries	**198**	185	162
Net charge-offs	**(1,259)**	(940)	(677)
Provision for credit losses	**1,065**	1,119	691
Acquisition of Centura Banks, Inc.	**—**	157	—
Acquisition of Eagle Bancshares, Inc.	**18**	—	—
Other	**98**	81	61
Allowance for credit losses at end of year	**2,314**	2,392	1,975
Allowance for off-balance sheet and other items (1)	**(109)**	(109)	(98)
Allowance for securities	**(2)**	(5)	(6)
Allowance for loan losses at end of year	**$ 2,203**	$ 2,278	$1,871

(1) The allowance for off-balance sheet and other items is included in Other liabilities.

NOTE 7 Securitizations

During the year, we securitized $3,734 million (2001 — $800 million) of government guaranteed residential mortgage loans through the creation of mortgage-backed securities, and sold $1,708 million (2001 — $723 million) of those securities. We received net cash proceeds of $1,691 million (2001 — $720 million) and retained the rights to future excess interest of $71 million (2001 — $25 million) on the residential mortgages. A pre-tax gain on sale, net of transaction costs, of $54 million (2001 — $22 million) was recognized in Securitization revenues. Mortgage-backed securities, created and unsold, remain on the Consolidated balance sheet and are classified as Available for sale.

We did not sell any undivided interests in credit card loans during the year (2001 — $1,000 million).

The key assumptions used to value the retained interests in residential mortgage loans at the date of securitization for transactions completed during the year were an annualized payment rate of 12.00%, excess spread of 1.20%, and discount rate of 4.75%.

Static pool credit losses include actual incurred and projected credit losses divided by the original balance of the loans securitized. The expected static pool credit loss ratio for securitized credit card loans at October 31, 2002 was .41%.

The following table summarizes the loan principal, nonaccrual and net charge-offs for total loans reported on our balance sheet and securitized loans that we manage as at October 31, 2002 and 2001:

Loans reported and securitized

	2002			2001		
	Loan principal	Nonaccrual (1)	Net charge-offs	Loan principal	Nonaccrual(1)	Net charge-offs
Residential mortgage	**$ 78,323**	**$ 228**	**$ 12**	$ 71,884	$ 283	$ 24
Personal	**31,956**	**371**	**328**	32,511	387	334
Credit card	**6,589**	**41**	**172**	6,383	49	152
Business and government	**61,811**	**1,865**	**779**	66,939	1,991	455
Total loans managed (2)	**178,679**	**2,505**	**1,291**	177,717	2,710	965
Less: Loans securitized (3)	**7,156**	**—**	**32**	6,540	—	25
Total loans reported on the Consolidated balance sheet	**$ 171,523**	**$ 2,505**	**$ 1,259**	$ 171,177	$ 2,710	$ 940

(1) Includes past due loans greater than 90 days not classified as nonaccrual.

(2) Represents net loans outstanding and loans that have been securitized, which we continue to service, and excludes any assets we have temporarily acquired with the intent at acquisition to sell them to special purpose entities.

(3) Loan principal includes credit card loans of $1,675 million (2001 — $2,100 million), mortgage-backed securities created and sold of $2,416 million (2001 — $1,361 million) and mortgage-backed securities created and unsold of $3,065 million (2001 — $3,079 million).

NOTE 7 Securitizations (continued)

At October 31, 2002, key economic assumptions and the sensitivity of the current fair value of these retained interests to immediate 10% and 20% adverse changes in key assumptions are shown in the first table below.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; generally, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

The second table below summarizes certain cash flows received from securitizations in 2002 and 2001.

Sensitivity of key assumptions to adverse changes (1)

	Impact on fair value	
	Credit card loans	Residential mortgage loans
Fair value of retained interests	$ 15.1	$ 94.6
Weighted average remaining service life (in years)	.2	3.9
Payment rate	39.07%	13.62%
Impact on fair value of 10% adverse change	$ (1.0)	$ (2.7)
Impact on fair value of 20% adverse change	(1.9)	(5.3)
Excess spread, net of credit losses	5.92%	1.19%
Impact on fair value of 10% adverse change	$ (1.5)	$ (9.5)
Impact on fair value of 20% adverse change	(3.1)	(18.9)
Expected credit losses	1.68%	—
Impact on fair value of 10% adverse change	$ (.5)	—
Impact on fair value of 20% adverse change	(.9)	—
Discount rate	12.50%	4.55%
Impact on fair value of 10% adverse change	$ (.1)	$ (.3)
Impact on fair value of 20% adverse change	(.1)	(.6)

(1) All rates are annualized except for credit card loans payment rate, which is monthly.

Cash flows from securitizations

	2002		2001	
	Credit card loans	Residential mortgage loans	Credit card loans	Residential mortgage loans
Proceeds from new securitizations	**$ —**	**$ 1,691**	$ 1,000	$ 720
Proceeds reinvested in revolving securitizations	**8,512**	**303**	6,972	13
Cash flows from retained interests in securitizations	**64**	**15**	60	10

NOTE 8 Premises and equipment

	2002			2001
	Cost	Accumulated depreciation	Net book value	Net book value
Land	**$ 172**	**$ —**	**$ 172**	$ 123
Buildings	**606**	**287**	**319**	335
Computer equipment	**1,605**	**1,163**	**442**	437
Furniture, fixtures and other equipment	**976**	**650**	**326**	313
Leasehold improvements	**901**	**521**	**380**	390
	$4,260	**$ 2,621**	**$1,639**	$1,598

The depreciation and amortization expense for premises and equipment amounted to $388 million and $387 million in 2002 and 2001, respectively.

NOTE 9 Other assets

	2002	2001
Receivable from brokers, dealers and clients	**$ 3,229**	$ 3,505
Insurance-related assets (1)	**2,987**	2,043
Accrued interest receivable	**1,287**	1,733
Net deferred income tax asset	**1,003**	1,047
Investment in associated corporations	**224**	152
Prepaid pension benefit cost (2)	**109**	366
Other	**4,651**	4,518
	$13,490	$13,364

(1) Insurance-related assets include, among other items, policy loan balances, premiums outstanding, amounts due from other insurers in respect of reinsurance contracts and pooling arrangements, deferred acquisition costs and value of business acquired.

(2) Prepaid pension benefit cost represents the cumulative excess of pension fund contributions over the amounts recorded as pension benefit expense.

NOTE 10 Deposits

	2002				2001
	Demand (1)	Notice (2)	Term (3)	Total	Total
Personal	**$10,735**	**$30,065**	**$ 61,092**	**$101,892**	$101,381
Business and government	**39,004**	**8,864**	**71,898**	**119,766**	107,485
Bank	**3,084**	**85**	**20,213**	**23,382**	26,821
	$52,823	**$39,014**	**$153,203**	**$245,040**	$235,687
Non-interest-bearing					
Canada				**$ 23,222**	$ 22,397
United States				**2,078**	1,918
Other International				**891**	543
Interest-bearing					
Canada				**119,737**	118,161
United States				**35,495**	25,169
Other International				**63,617**	67,499
				$245,040	$235,687

(1) Deposits payable on demand include all deposits for which we do not have the right to notice of withdrawal. These deposits are for the most part, chequing accounts.

(2) Deposits payable after notice include all deposits for which we can legally require notice of withdrawal. These deposits are for the most part, savings accounts.

(3) Term deposits include deposits payable on a fixed date. These deposits include term deposits, guaranteed investment certificates and similar instruments. At October 31, 2002, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $11.3 billion (2001 — $10.7 billion) and other notes and similar instruments in bearer form we have issued of $21.7 billion (2001 — $18.5 billion).

NOTE 11 Other liabilities

	2002	2001
Short-term borrowings of subsidiaries	**$10,173**	$ 6,838
Insurance claims and policy benefit liabilities	**5,302**	4,256
Payable to brokers, dealers and clients	**3,630**	3,202
Accrued interest payable	**1,263**	1,887
Accrued pension and other postretirement benefit expense (1)	**919**	714
Dividends payable	**289**	273
Other	**8,245**	6,809
	$29,821	$23,979

(1) Accrued pension and other postretirement benefit expense represents the cumulative excess of pension and other postretirement benefit expense over pension fund contributions.

NOTE 12 Subordinated debentures

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All redemptions, cancellations and exchanges of subordinated debentures are subject to the consent and approval of the Superintendent of Financial Institutions Canada.

Maturity	Earliest par value redemption date	Interest rate	Denominated in foreign currency	2002	2001
January 11, 2002		11.00%		**$ —**	$ 41
March 1, 2002		10.50%		**—**	60
September 3, 2007	(1)	5.40%		**—**	400
September 3, 2008	September 3, 2003 (2)	5.45%(3)		**100**	100
March 15, 2009		6.50%	US$125	**195**	199
April 12, 2009	April 12, 2004 (2)	5.40%(3)		**350**	350
June 11, 2009	June 11, 2004 (2)	5.10%(3)		**350**	350
July 7, 2009	July 7, 2004 (2)	6.05%(3)		**175**	175
October 12, 2009	October 12, 2004 (2)	6.00%(3)		**150**	150
August 15, 2010	August 15, 2005 (2)	6.40%(3)		**700**	700
February 13, 2011	February 13, 2006 (4)	5.50%(3)		**125**	125
April 26, 2011	April 26, 2006 (5)	8.20%(3)		**100**	100
September 12, 2011	September 12, 2006 (2)	6.50%(3)		**350**	350
October 24, 2011	October 24, 2006 (6)	6.75%(7)	US$300	**467**	476
November 8, 2011	November 8, 2006 (8)	(9)	US$400	**625**	—
June 4, 2012	June 4, 2007 (2)	6.75%(3)		**500**	500
January 22, 2013	January 22, 2008 (10)	6.10%(3)		**500**	500
November 14, 2014		10.00%		**200**	200
January 25, 2015	January 25, 2010 (11)	7.10%(3)		**500**	500
April 12, 2016	April 12, 2011 (12)	6.30%(3)		**400**	400
June 8, 2023		9.30%		**110**	110
October 1, 2083	(13)	(14)		**250**	250
June 6, 2085	(13)	(15)	US$300	**467**	477
				6,614	6,513
Fair value adjustment (16)				**346**	348
				$6,960	$6,861

(1) Redeemed on September 3, 2002 at par value.

(2) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 5 basis points and (ii) par value, and thereafter at any time at par value.

(3) Interest at stated interest rate until earliest par value redemption date, and thereafter at a rate of 1.00%above the 90-day Bankers'Acceptance rate.

(4) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 8basis points and (ii) par value, and thereafter at any time at par value.

(5) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 10 basis points and (ii) par value, and thereafter at any time at par value.

(6) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on U.S. Treasury notes plus 10 basis points and (ii) par value, and thereafter at any time at par value.

(7) Interest at a rate of 6.75% until earliest par value redemption date, and thereafter at a rate of 1.00% above the U.S. dollar 6-month LIBOR.

(8) Redeemable on the earliest par value redemption date at par value.

(9) Interest at a rate of .50% above the U.S. dollar 3-month LIBOR until earliest par value redemption date, and thereafter at a rate of 1.50% above the U.S. dollar 3-month LIBOR.

(10) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 18 basis points and (ii) par value, and thereafter at any time at par value.

(11) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 12.5 basis points and (ii) par value, and thereafter at any time at par value.

(12) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 22 basis points and (ii) par value, and thereafter at any time at par value.

(13) Redeemable on any interest payment date at par value.

(14) Interest at a rate of .40% above the 30-day Bankers' Acceptance rate.

(15) Interest at a rate of .25% above the U.S. dollar 3-month LIMEAN. In the event of a reduction of the annual dividend we declare on our common shares, the interest payable on the debentures is reduced pro rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of newly issued common shares.

(16) The fair value adjustment reflects the adjustment to the carrying value of hedged subordinated debentures as a result of FAS 133. The subordinated debentures specifically hedged have maturity dates ranging from October 24, 2011 to April 12, 2016.

NOTE 12 Subordinated debentures (continued)

Maturity schedule

The aggregate maturities of subordinated debentures, based on the maturity dates under the terms of issue, are as follows:

2003— 2007	$ —
2008 to 2012	4,310
Thereafter	2,650
	$6,960

NOTE 13 Capital stock

Authorized capital stock

Preferred — An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares that may be issued may not exceed $10 billion and $5 billion, respectively.

Common — An unlimited number of shares without nominal or par value may be issued.

Issued and outstanding capital stock

	2002			2001			2000		
	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share
First Preferred									
Non-cumulative Series E(1)	**—**	**$ —**	**$ 3.06**	1,500	$ 149	$ 5.16	1,500	$ 149	$ 5.38
Non-cumulative Series H (1)	**—**	**—**	**—**	—	—	1.69	12,000	295	2.25
US$ Non-cumulative Series I (1)	**—**	**—**	**US .02**	8,000	315	US 1.91	8,000	301	US 1.91
Non-cumulative Series J	**12,000**	**294**	**1.78**	12,000	294	1.78	12,000	294	1.78
US$ Non-cumulative Series K	**10,000**	**384**	**US1.58**	10,000	392	US 1.58	10,000	376	US 1.58
Non-cumulative Series N	**12,000**	**293**	**1.18**	12,000	293	1.18	12,000	293	1.18
Non-cumulative Series O	**6,000**	**145**	**1.38**	6,000	145	1.38	6,000	145	1.38
US$ Non-cumulative Series P	**4,000**	**152**	**US1.44**	4,000	155	US 1.44	4,000	148	US 1.44
Non-cumulative Series S	**10,000**	**247**	**1.53**	10,000	247	.65	—	—	—
		$1,515			$1,990			$2,001	
Common									
Balance at beginning of year	**674,021**	**$6,959**		602,398	$3,074		617,768	$3,063	
Issued	**—**	**—**		12,305	576		—	—	
Issued under the stock option plan(2)	**5,211**	**175**		2,819	81		2,700	59	
Issued on the acquisition of Centura Banks, Inc.	**—**	**—**		67,413	3,317		—	—	
Options granted on acquisition of Dain Rauscher Corporation	**—**	**14**		—	33		—	—	
Issued on the acquisition of Richardson Greenshields Limited (3)	**318**	**15**		13	2		1,667	50	
Renounced stock appreciation rights, net of related income taxes	**—**	**29**		—	—		—	—	
Issuance costs, net of related income taxes	**—**	**(1)**		—	(12)		—	—	
Purchased for cancellation (4)	**(14,293)**	**(152)**		(10,927)	(112)		(19,737)	(98)	
Balance at end of year	**665,257**	**$7,039**	**$ 1.51**	674,021	$6,959	$ 1.38	602,398	$3,074	$ 1.14

(1) On November 26, 2001 and October 11, 2002, we redeemed First Preferred Shares Series I and E respectively. On August 24, 2001 we redeemed First Preferred Shares Series H.

(2) Includes the exercise of stock options from tandem stock appreciation rights awards, resulting in a reversal of the accrued liability, net of related income taxes, of $8 million.

(3) During the year we exchanged nil (2001—36,527;2000 — 4,701) Class B shares and 1,846,897 (2001—77,956; 2000 — 8,008,712) Class C shares issued by our wholly owned subsidiary, Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited for 318,154 (2001—13,621;2000 — 1,667,334) common shares.

(4) Commencing in June 2001, pursuant to a one-year normal course issuer bid, we repurchased through the facilities of the Toronto and Montreal Stock Exchanges 15,401,100 common shares at an average price of $49.32 per share. Under this bid, 10,927,200 common shares were repurchased during fiscal 2001 at a cost of $509 million and 4,473,900 common shares were repurchased during fiscal 2002 at a cost of $251 million. On June 24, 2002, we renewed our one-year normal course issuer bid to purchase for cancellation, up to 20 million of our common shares, representing approximately 3% of our outstanding common shares. Under this renewed bid, 9,818,900 common shares were purchased, at an average cost of $52.27 per share, for $513 million. During fiscal2002, a total of 14,292,800 common shares were repurchased for $764 million at an average cost of $53.45 per share.

NOTE 13 Capital stock (continued)

Terms of preferred shares

	Dividend per share (1)	Redemption date (2)	Redemption price (3)	Conversion dates	
				At the option of the bank (2), (4)	At the option of the holder (5)
First Preferred					
Non-cumulative Series J	0.443750	May 24, 2003	25.00	May 24, 2003	November 24, 2003
US$ Non-cumulative Series K	US 0.393750	May 24, 2003	US 25.00	May 24, 2003	November 24, 2003
Non-cumulative Series N	0.293750	August 24, 2003	26.00	August 24, 2003	August 24, 2008
Non-cumulative Series O	0.343750	August 24, 2004	26.00	August 24, 2004	Not convertible
US$ Non-cumulative Series P	US 0.359375	August 24, 2004	US 26.00	August 24, 2004	Not convertible
Non-cumulative Series S	0.38125	August 24, 2006	26.00	August 24, 2006	Not convertible

(1) Non-cumulative preferential dividends on Series J, K, N, O, P and S are payable quarterly, as and when declared by the Board of Directors, on or about the 24th day of February, May, August and November.

(2) Subject to the consent of the Superintendent of Financial Institutions Canada and the requirements of the *Bank Act*, we may, on or after the dates specified above, redeem First Preferred Shares. These may be redeemed (i) for cash, in the case of First Preferred Shares Series J and K equal to the redemption price as stated above, in the case of Series N at a price per share of $26, if redeemed during the 12 months commencing August 24, 2003, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2007, and in the case of Series O and P at a price per share of $26 if redeemed during the 12 months commencing August 24, 2004, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2008, and in the case of Series S at a price per share of $26 if redeemed during the 12 months commencing August 26, 2006, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2010, or (ii) by conversion, in the case of Series J and K into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

(3) Subject to the consent of the Superintendent of Financial Institutions Canada and the requirements of the *Bank Act*, we may purchase First Preferred Shares for cancellation at a purchase price, in the case of the Series J and K not exceeding the then-applicable redemption price specified above plus all declared and unpaid dividends, and, in the case of the Series N, O, P and S at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

(4) Subject to the approval of the Toronto Stock Exchange, we may, on or after the dates specified above, convert First Preferred Shares Series N, O, P and S into our common shares. First Preferred Shares may be converted into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

(5) Subject to our right to redeem or to find substitute purchasers, the holder may, on or after the dates specified above, convert First Preferred Shares into our common shares. Series J, K and N may be converted, quarterly, into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

Restrictions on the payment of dividends

We are prohibited by the *Bank Act* (Canada) from declaring any dividends on our preferred or common shares when we are, or would be placed as a result of the declaration, in contravention of the capital adequacy and liquidity regulations or any regulatory directives issued under the act. We may not pay dividends on our common shares at any time unless all dividends to which preferred shareholders are then entitled have been declared and paid or set apart for payment.

In addition, we may not declare or pay a dividend without the approval of the Superintendent of Financial Institutions Canada (OSFI) if, on the day the dividend is declared, the total of all dividends in that year would exceed the aggregate of our net income up to that day and of our retained net income for the preceding two years.

We have agreed that if RBC Capital Trust (a closed-end trust, which is a subsidiary) fails to pay any required distribution on its capital trust securities, we will not declare dividends of any kind on any of our preferred or common shares.

Currently, these limitations do not restrict the payment of dividends on our preferred or common shares.

Regulatory capital

We are subject to the regulatory capital requirements defined by OSFI, which includes the use of Canadian GAAP. Two measures of capital strength established by OSFI, based on standards issued by the Bank for International Settlements (BIS), are risk-adjusted capital ratios and the assets-to-capital multiple.

OSFI requires Canadian banks to maintain a minimum Tier 1 and Total capital ratio of 4% and 8%, respectively. However, OSFI has also 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%. At October 31, 2002, our Tier 1 and Total capital ratios were 9.3% and 12.7%, respectively (2001 — 8.7% and 11.8%, respectively).

In the evaluation of our assets-to-capital multiple, OSFI specifies that total assets, including specified off-balance sheet financial instruments, should be no greater than 23 times Total capital. At October 31, 2002, our assets-to-capital multiple was 17.3 times (2001 — 17.2 times).

Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information, our Tier 1 and Total capital ratios at October 31, 2002, were 8.5% and 11.9%, respectively (2001 — 8.1% and 11.2%, respectively).

Other

In 2000, we entered into an 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 (allocated general and unallocated) be drawn down below a certain level. During the year, the reinsurer was downgraded from AAA. Based on this development and an internal review by management, the agreement was not renewed.

NOTE 14 Income taxes

	2002	2001	2000
Provision for income tax in income			
Current			
Canada — Federal	**$ 681**	$ 827	$ 799
Provincial	**265**	354	349
International	**155**	103	258
	1,101	1,284	1,406
Deferred			
Canada — Federal	**205**	22	38
Provincial	**70**	3	9
International	**39**	41	(41)
	314	66	6
	1,415	1,350	1,412
Income tax expense (benefit) in shareholders' equity			
Unrealized gains and losses on available for sale securities, net of hedging activities	**(4)**	221	20
Unrealized foreign currency translation gains and losses, net of hedging activities	**100**	(487)	(37)
Gains and losses on derivatives designated as cash flow hedges	**30**	(173)	—
Stock appreciation rights	**22**	—	—
Additional pension obligation	**(155)**	(12)	—
	(7)	(451)	(17)
Total income taxes	**$1,408**	$ 899	$1,395

Deferred income taxes (temporary differences)

	2002	2001	2000
Deferred income tax asset (1)			
Allowance for credit losses	**$ 512**	$ 582	$ 514
Deferred compensation	**339**	190	78
Pension related	**210**	105	44
Tax loss carryforwards	**22**	84	72
Premises and equipment	**—**	—	83
Deferred income	**60**	61	152
Other	**259**	399	223
	1,402	1,421	1,166
Deferred income tax liability			
Premises and equipment	**(9)**	(91)	—
Deferred expense	**(240)**	(149)	(86)
Other	**(150)**	(134)	(77)
	(399)	(374)	(163)
Net deferred income tax asset	**$1,003**	$1,047	$1,003

(1) We have determined that it is more likely than not that the deferred income tax asset will be realized through a combination of future reversals of temporary differences and taxable income.

Reconciliation to statutory tax rate

	2002		2001		2000	
Income taxes at Canadian statutory tax rate	**$1,702**	**38.5%**	$1,615	41.5%	$1,558	42.8%
Increase (decrease) in income taxes resulting from						

Increase (decrease) in income taxes resulting from Lower average tax rate applicable to subsidiaries	**(276)**	**(6.2)**	(253)	(6.5)	(303)	(8.3)
Tax-exempt income from securities	**(7)**	**(.2)**	(7)	(.2)	(7)	(.2)
Tax rate change	**33**	**.7**	79	2.0	20	.5
Other	**(37)**	**(.8)**	(84)	(2.1)	144	4.0
Income taxes reported in income/effective tax rate	**$1,415**	**32.0%**	$1,350	34.7%	$1,412	38.8%

International earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. We have not recognized a deferred tax liability for these undistributed earnings as we do not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at $841 million as at October 31, 2002 (2001 — $772 million; 2000 — $737 million).

NOTE 15 Pensions and other postretirement benefits

We sponsor a number of defined benefit and defined contribution plans providing pension and other postretirement benefits to eligible employees.

The following tables present information related to our benefit plans, including amounts recorded on the Consolidated balance sheet and the components of net benefit expense:

Plan assets, benefit obligation and funded status

	Pension plans (1)		Other postretirement plans (2)	
	2002	2001	2002	2001
Change in fair value of plan assets (3)				
Fair value of plan assets, October 1	**$4,049**	$4,519	**$ 1**	$ 67
Actual return on plan assets	**(133)**	(476)	**—**	7
Company contributions	**99**	20	**23**	21
Plan participant contributions	**19**	18	**1**	—
Benefits paid	**(258)**	(251)	**(25)**	(22)
Plan settlements	**(52)**	—	**—**	(72)
Business acquisitions	**—**	63	**—**	—
Change in foreign currency exchange rate	**17**	12	**—**	—
Transfers from other plans	**6**	144	**—**	—
Fair value of plan assets, September 30	**$3,747**	$4,049	**$ —**	$ 1
Change in benefit obligation				
Benefit obligation, October 1	**$4,044**	$3,710	**$ 693**	$ 609
Service cost	**113**	104	**22**	64
Interest cost	**297**	268	**51**	49
Plan participant contributions	**19**	18	**1**	—
Actuarial loss	**280**	55	**318**	19
Benefits paid	**(258)**	(251)	**(25)**	(22)
Transfers from other plans	**3**	—	**—**	—
Plan amendments and curtailments	**59**	31	**7**	—
Plan settlements	**—**	—	**—**	(72)
Business acquisitions	**2**	117	**—**	35
Change in foreign currency exchange rate	**31**	(9)	**—**	—
Changes in assumptions	**—**	1	**—**	11
Benefit obligation, September 30	**$4,590**	$4,044	**$ 1,067**	$ 693
Funded status				
(Deficit) excess of plan assets over benefit obligation	**$ (843)**	$ 5	**$ (1,067)**	$ (692)
Unrecognized net actuarial loss	**792**	32	**360**	42
Unrecognized transition (asset) obligation	**(26)**	(24)	**190**	207
Unrecognized prior service cost	**211**	205	**13**	10
Contributions between September 30 and October 31	**222**	—	**3**	—
Other	**(1)**	(48)	**1**	1
Net amount recognized as at October 31	**$ 355**	$ 170	**$ (500)**	$ (432)
Amounts recognized in the Consolidated balance sheet consist of:				
Prepaid pension benefit cost	**$ 109**	$ 366		
Accrued pension benefit expense	**(419)**	(282)		
Intangible asset	**205**	57		
Accumulated other comprehensive income	**460**	29		
Net amount recognized as at October 31	**$ 355**	$ 170		
Weighted average assumptions				
Discount rate	**6.75%**	7.00%	**7.00%**	7.25%
Assumed long-term rate of return on plan assets	**7.00%**	7.00%	**4.75%**	4.75%
Rate of increase in future compensation	**4.00%**	4.40%	**4.40%**	4.40%

Pension benefit expense (4)

	2002	2001	2000

Service cost	**$ 113**	$ 104	$ 98
Interest cost	**297**	268	254
Expected return on plan assets	**(300)**	(306)	(291)
Amortization of transition asset	**(2)**	(2)	(2)
Amortization of prior service cost	**32**	17	22
Recognized net actuarial gain	**(27)**	(45)	(41)
Settlement loss	**52**	—	—
Other	**(45)**	(14)	19
Defined benefit pension expense	**120**	22	59
Defined contribution pension expense	**61**	30	6
Pension benefit expense	**$ 181**	$ 52	$ 65

Other postretirement benefit expense (2)

	2002	2001	2000
Service cost	**$ 22**	$ 64	$ 17
Interest cost	**51**	49	42
Expected return on plan assets	**—**	(1)	(3)
Amortization of transition obligation	**17**	17	17
Other	**2**	2	—
Other postretirement benefit expense	**$ 92**	$ 131	$ 73

2002 sensitivity of key assumptions

Pensions	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	**$ 126**	**$ 16**
Impact of .25% change in rate of increase in future compensation assumption	**29**	**2**
Impact of .25% change in the long-term rate of return on plan assets assumption		**10**

Postretirement	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	**$ 48**	**$ 3**
Impact of .25% change in rate of increase in future compensation assumption	**4**	**1**

(1) Included in these amounts are $3,239 million (2001 — $266 million) of plan assets and $4,131 million (2001 — $567 million) of benefit obligations for plans that are not fully funded.

(2) Includes postretirement health, dental and life insurance. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the postretirement health and life plans were 8% for medical and 5% for dental, decreasing to an ultimate rate of 4% in 2009. A one percentage point increase in assumed health care cost trend rates would have increased the service and interest costs and obligation by $12 million and $142 million, respectively. A one percentage point decrease in assumed health care cost trends would have lowered the service and interest costs and the obligation by $8 million and $112 million, respectively.

(3) Plan assets includes 818,597 (2001 — 886,384) of Royal Bank common shares having a fair value of $43 million (2001 — $43 million). In addition, dividends amounting to $1 million (2001 — $1 million) were received on Royal Bank common shares held in the plan assets during the year.

(4) Discount rate assumption of 7.00% (2001 — 7.00%; 2000 — 7.25%) was used to determine pension benefit expense.

NOTE 16 Stock-based compensation

Stock option plans

We have two stock option plans — one for certain key employees and one for non-employee directors. Under these plans, options are periodically granted to purchase common shares at prices not less than the market price of such shares on the day of grant. The options vest over a 4-year period for employees and immediately for directors and are exercisable for a period not exceeding 10 years from the grant date.

For options issued prior to October 31, 2002 that were not accompanied by tandem stock appreciation rights (SARs), no compensation expense was recognized as the option's exercise price was not less than the market price of the underlying stock on the day of grant. When the options are exercised, the proceeds received are credited to common shares.

Between November 29, 1999 and June 5, 2001, grants of options under the employee stock option plan were accompanied by tandem SARs. With SARs, participants could choose to exercise a SAR instead of the corresponding option. In such cases, the participants received a cash payment equal to the difference between the closing price of common shares on the day immediately preceding the day of exercise and the exercise price of the option.

Compensation expense for SARs is recognized using estimates based on past experience, of participants exercising SARs rather than the corresponding options. The compensation expense for these grants, which is amortized over the associated option's vesting period, was $27 million for the year ended October 31, 2002 (2001 — $23 million; 2000 — $52 million).

During the last quarter of 2002, certain executive participants voluntarily renounced their SARs while retaining the corresponding options. At the time of renouncement, the compensation cost was fixed and the accrued liability of $47 million was transferred to equity.

Stock options

	2002		2001		2000	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding at beginning of year	**30,158**	**$ 36.84**	25,880	$ 33.61	20,966	$ 32.42
Granted	**4,215**	**49.12**	7,949	44.46	8,286	33.09
Exercised — Common shares	**(5,211)**	**32.07**	(2,819)	28.77	(2,700)	22.05
— SARs	**(291)**	**34.01**	(259)	33.55	—	—
Cancelled	**(392)**	**38.37**	(593)	37.82	(672)	36.10
Outstanding at end of year	**28,479**	**$ 39.54**	30,158	$ 36.84	25,880	$ 33.61
Exercisable at end of year	**14,050**	**$ 36.07**	12,895	$ 32.62	8,881	$ 30.29
Available for grant	**16,105**		20,289		25,849	

Range of exercise prices

	Options outstanding			Options exercisable	
	Number outstanding (000s)	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable (000s)	Weighted average exercise price
$14.46-$15.68	**587**	**$ 15.57**	**3.9**	**587**	**$ 15.57**
$24.80-$28.25	**2,816**	**26.19**	**6.9**	**2,401**	**25.85**
$30.00-$39.64	**15,175**	**36.68**	**7.1**	**9,595**	**37.90**
$43.59-$52.19	**9,901**	**49.15**	**9.4**	**1,467**	**49.04**
Total	**28,479**	**$ 39.54**	**7.8**	**14,050**	**$ 36.07**

Fair value method

FAS 123, *Accounting for Stock-Based Compensation*, recommends the recognition of an expense for option awards using the fair value method of accounting. It permits the use of the intrinsic value based method (APB 25, *Accounting for Stock Issued to Employees*), provided pro forma disclosures of net income and earnings per share applying the fair value method are made. For options with SARs attached, FAS 123 recommends the recognition of an intrinsic value based expense for the entire award. We will be adopting the recommendations of FAS 123 prospectively for new awards granted after November 1, 2002. The impact is an estimated charge to earnings of $6 million for the year ended October 31, 2003.

We have provided pro forma disclosures, which demonstrate the effect as if we had adopted the recommended recognition provisions of FAS 123 in 2002, 2001 and 2000 as indicated below:

Pro forma net income and earnings per share

	As reported			Pro forma (1)		
	2002	2001	2000	2002	2001	2000
Net income	**$2,898**	$2,435	$2,208	$2,856	$2,399	$2,164
Earnings per share	**4.16**	3.58	3.42	4.10	3.53	3.35
Diluted earnings per share	**4.12**	3.55	3.40	4.07	3.50	3.34

(1) Compensation expense under the fair value based method is recognized over the vesting period of the related stock options. Accordingly, the pro forma results of applying this method may not be indicative of future amounts.

In determining the pro forma disclosures above, the fair value of options granted during 2002 was estimated on the date of grant using an option pricing model with the following assumptions: (i) risk-free interest rate of 4.89% (2001 — 5.86%; 2000 — 6.04%), (ii) expected option life of 6 years (2001, 2000 — 10 years), (iii) expected volatility of 20% (2001 — 24%; 2000 — 22%) and (iv) expected dividends of 2.9% (2001 — 2.67%; 2000 — 2.60%). The fair value of each option granted was $10.02 (2001 — $14.78; 2000 — $10.26).

NOTE 16 Stock-based compensation (continued)

Employee share ownership plans

We offer many employees an opportunity to own stock through RBC savings and share ownership plans. Under these plans, the employee can generally contribute between 1% and 10% of their annual salary or benefit base for commissioned employees. For each contribution between 1% and 6%, we will match 50% of the employee contributions in common shares. For the RBC Dominion Securities Savings Plan our maximum annual contribution is $4,500 per employee. For the RBC UK Share Incentive Plan our maximum annual contribution is £1,500 per employee. We contributed $49 million (2001 — $47 million; 2000 — $45 million), under the terms of these plans, towards the purchase of common shares. As at October 31, 2002, an aggregate of 17,397,119 common shares were held under these plans.

Deferred share and other plans

We offer deferred share unit plans to executives and non-employee directors. Under these plans, each executive or director may choose to receive all or a percentage of their annual incentive bonus or directors fee in the form of deferred share units (DSUs). The executives or directors must elect to participate in the plan prior to the beginning of the fiscal year. DSUs earn dividend equivalents in the form of additional DSUs at the same rate as dividends on common shares. The participant is not allowed to convert the DSUs until retirement, permanent disability or termination of employment/directorship. The cash value of the DSUs is equivalent to the market value of common shares when conversion takes place. The value of the DSUs as at October 31, 2002, was $73 million (2001 — $52 million; 2000 — $26 million). The share appreciation and dividend-related compensation expense recorded for the year ended October 31, 2002, in respect of these plans was $16 million (2001 — $8 million; 2000 — $7 million).

We have a deferred bonus plan for certain key employees within RBC Capital Markets. Under this plan, a percentage of each employee's annual incentive bonus is deferred and accumulates dividend equivalents at the same rate as dividends on common shares. The employee will receive the deferred bonus in equal amounts paid within 90 days of the following 3 year-end dates. The value of the deferred bonus paid will be equivalent to the original deferred bonus adjusted for dividends and changes in the market value of common shares at the time the bonus is paid. The value of the deferred bonus as at October 31, 2002, was $187 million (2001 — $128 million; 2000 — $89 million). The share appreciation and dividend-related compensation expense for the year ended October 31, 2002 in respect of this plan was $20 million (2001 — $5 million recovery; 2000 — $10 million).

We offer deferred share plans to certain key employees within RBC Investments with various vesting periods up to a maximum of five years. Awards under some of these plans may be deferred in the form of common shares, which are held in trust, or DSUs. The participant is not allowed to convert the DSU until retirement, permanent disability, or termination of employment. The cash value of DSUs is equivalent to the market value of common shares when conversion takes place. Certain plans award share units that track the value of common shares with payout in cash at the end of a maximum five-year term. The value of deferred shares held in trust as at October 31, 2002, was $34 million (2001 — $14 million). The value of the various share units as at October 31, 2002, was $10 million (2001 — $4 million). The stock-based compensation expense recorded for the year ended October 31, 2002, in respect of these plans, was $32 million (2001 — $16 million; 2000 — $14 million).

We offer a performance deferred share plan to certain key employees. The performance deferred share award is made up of 50% regular shares and 50% performance shares all of which vest at the end of 3 years. At the time the shares vest, the performance shares can be increased or decreased by 50% depending on our total shareholder return compared to 15 North American financial institutions. Compensation expense of $11 million was recognized for the year ended October 31, 2002 in respect of this award. The value of common shares held in trust as at October 31, 2002 was $34 million.

We offer a mid-term compensation plan to certain senior executive officers. Awards under this program are converted into share units equivalent to common shares. The share units vest over a three-year period in equal installments of one-third per year. The units have a value equal to the market value of common shares on each vesting date and are paid in either cash or common shares at our option. The value of the share units as at October 31, 2002 was $16 million (2001 — $21 million). The compensation expense recorded for the year ended October 31, 2002 in respect of this plan was $12 million (2001 — $8 million).

Dain Rauscher maintains a non-qualified deferred compensation plan for key employees under an arrangement called the wealth accumulation plan. This plan allows eligible employees to make deferrals of their annual income and allocate the deferrals among various fund choices, which include an RBC share unit fund that tracks the value of our common shares. Certain deferrals may also be eligible for matching contributions from us. All matching contributions are allocated to the RBC share unit fund. The compensation expense recorded for the year ended October 31, 2002, in respect of the matching contributions, was $12 million (2001 — $7 million). The value of the RBC share units held under the plan as at October 31, 2002 was $70 million (2001 — $7 million).

For other stock-based plans, compensation expense of $19 million was recognized for the year ended October 31, 2002 (2001 — $14 million; 2000 — $1 million). The value of the share units and shares held under these plans as at October 31, 2002 was $10 million (2001 — $3 million; 2000 — $1 million).

Retention plan

On the acquisition of Dain Rauscher, certain key employees of Dain Rauscher were offered retention units awards totalling $318 million in award value to be paid out evenly over expected service periods of between three and four years. Payments to participants of the plan are based on the market value of common shares on the vesting date. The compensation expense recorded for the year ended October 31, 2002 in respect of this plan was $92 million (2001 — $143 million). The liability under this plan was $151 million as at October 31, 2002 (2001 — $135 million).

NOTE 17 Earnings per share

	2002	2001	2000
Earnings per share			
Net income	**$ 2,898**	$ 2,435	$ 2,208
Preferred share dividends	**(98)**	(135)	(134)
Net income available to common shareholders	**$ 2,800**	$ 2,300	$ 2,074
Average number of common shares (in thousands)	**672,571**	641,516	606,389
	$ 4.16	$ 3.58	$ 3.42
Diluted earnings per share			
Net income available to common shareholders	**$ 2,800**	$ 2,300	$ 2,074
Effect of assumed conversions (1)	**—**	1	2
Net income adjusted for diluted computation	**$ 2,800**	$ 2,301	$ 2,076
Average number of common shares (in thousands)	**672,571**	641,516	606,389
Convertible Class B and C shares (1)	**14**	363	736
Stock options (2)	**6,568**	5,337	2,740
Average number of diluted common shares (in thousands)	**679,153**	647,216	609,865
	$ 4.12	$ 3.55	$ 3.40

(1) The convertible shares included the Class B and C shares issued by our wholly owned subsidiary Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited on November 1, 1996. The outstanding Class B shares were all exchanged into Royal Bank of Canada common shares in 2001 and the remaining Class C shares were exchanged for common shares on November 9, 2001. The price of the Class C shares was determined based on our average common share price during the 20 days prior to the date the exchange was made. During the year we exchanged nil (2001 — 36,527; 2000 — 4,701) Class B shares and 1,846,897 (2001 — 77,956; 2000 — 8,008,712) Class C shares for 318,154 (2001 — 13,621; 2000 — 1,667,334) common shares.

(2) The dilutive effect of stock options was calculated using the treasury stock method. This method calculates the number of incremental shares by assuming the outstanding stock options are (i) exercised and (ii) then reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price of our common shares for the period. Excluded from the calculation of diluted earnings per share were average options outstanding of 9,761 with an exercise price of $53.76 (2001 — 7,862 at $50.72; 1,956 at $49.03; 2000 — 6,153,507 at $39.64; 6,589,464 at $39.01; 2,639 at $38.22; and 393 at $43.59) as the options' exercise price was greater than the average market price of our common shares.

NOTE 18 Commitments and contingencies

Financial instruments with contractual amounts representing credit risk

The primary purpose of these commitments is to ensure that funds are available to a client as required. Our policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans.

Guarantees and standby letters of credit, which represent irrevocable assurances that we will make payments in the event that a client cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by uson behalf of a client authorizing a third party to draw drafts on us up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipment of goods to which they relate.

In securities lending transactions, we act as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loan at all times.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit.

Uncommitted amounts represent an amount for which we retain the option to extend credit to a borrower.

A note issuance facility represents an underwriting agreement that enables a borrower to issue short-term debt securities. A revolving underwriting facility represents a renewable note issuance facility that can be accessed for a specified period of time.

Financial instruments with contractual amounts representing credit risk

	2002	2001
Guarantees and standby letters of credit	**$ 13,610**	$ 13,391

Documentary and commercial letters of credit	**772**	750
Securities lending	**23,967**	21,377
Commitments to extend credit		
Original term to maturity of 1 year or less	**40,931**	44,179
Original term to maturity of more than 1 year	**34,115**	39,960
Uncommitted amounts	**45,978**	53,750
Note issuance/revolving underwriting facilities	**23**	132
	$159,396	$173,539

NOTE 18 Commitments and contingencies (continued)

Lease commitments

Minimum future rental commitments for premises and equipment under long-term non-cancellable leases for the next five years and thereafter are shown below.

Lease commitments

2003	$ 364
2004	330
2005	300
2006	267
2007	203
Thereafter	754
Total	$2,218

Litigation

On June 21, 2002, a week before it was due to pay Royal Bank of Canada US$517 million plus interest under the terms of a total return swap, which is recorded in Other assets, Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank) initiated an action against us in New York state court in an effort to nullify its obligation under the swap. On June 24, 2002, we instituted proceedings against Rabobank in the High Court in London, alleging that Rabobank had repudiated its obligation under the swap. On July 31, 2002, we filed a motion to dismiss or stay Rabobank's New York lawsuit. Rabobank filed, on September 27, 2002, an application to stay our claim with the High Court in London. Both our motion to stay or dismiss and Rabobank's application to stay are proceeding and the matter of forum is expected to be considered by both courts in the near future. Management expects to recover this amount in its entirety and accordingly a provision for loss has not been recorded.

Various other legal proceedings are pending that challenge certain of our practices or actions. Many of these proceedings are loan-related and are in reaction to steps taken by us and our subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

Pledged assets

In the ordinary course of business we accept collateral, generally under reverse repurchase and securities borrowing agreements. The fair value of collateral accepted that can be sold or repledged by us totalled $55.9 billion (2001 - $52.9 billion). Of this collateral, $36.4 billion (2001 - $41.9 billion) has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales. Details of assets pledged against liabilities, including amounts that cannot be sold or repledged by the secured party, are shown below:

Pledged assets

	2002	2001
Assets pledged to:		
Foreign governments and central banks	**$ 1,418**	$ 113
Clearing systems, payment systems and depositories	**1,075**	2,470
Assets pledged in relation to:		
Derivative transactions	**1,828**	830
Securities borrowing and lending	**19,720**	16,007
Obligations related to securities sold under repurchase agreements	**21,109**	20,855
Other	**3,389**	6,095
Total	**$ 48,539**	$46,370

NOTE 19 Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

Derivative product types

We use the following derivative financial instruments for both trading and non-trading purposes.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. For interest rate swaps, fixed and floating interest payments are exchanged based on a notional amount. Cross currency swaps involve the exchange of fixed or floating interest payments in one currency for the receipt of fixed or floating interest payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Forwards and futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts that are transacted on regulated exchanges.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), by or at a set date, a specified amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right.

Credit derivatives are contracts whose redemption value is linked to specified credit related events, such as bankruptcy, credit downgrade, non-payment or default. Examples of credit derivatives include credit default swaps,total return swaps and credit default baskets.

Derivatives held or issued for trading purposes

Most of our derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to clients to enable them to transfer, modify or reduce current or expected risks. Trading involves market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. We do not deal, to any significant extent, in leveraged derivative transactions. These transactions contain a multiplier which, for any given change in market prices, could cause the change in the transaction’s fair value to be significantly different from the change in fair value that would occur for a similar derivative without the multiplier.

Derivatives held or issued for non-trading purposes

We also use derivatives in connection with our own asset/liability management activities, which include hedging and investment activities.

Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities. Purchased interest rate options are used to hedge redeemable deposits and other options embedded in consumer products. Written options are used in our asset/liability management activities when specifically linked to a purchased option in the form of a collar. We use credit derivatives to manage our credit exposures and for risk diversification in our lending portfolio.

Our overall interest rate risk management objective is to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. Interest rate fluctuations will either cause assets and liabilities to appreciate or depreciate in market value or cause a variability in cash flows. In a fair value hedge, gains or losses on derivatives that are linked to these assets and liabilities will substantially offset the unrealized appreciation or depreciation. In a cash flow hedge, derivatives linked to the assets and liabilities will reduce the variability of cash flows resulting from interest rate fluctuations.

We may also choose to enter into derivative transactions to economically hedge certain business strategies that do not otherwise qualify for hedge accounting, or where hedge accounting is not considered economically feasible to implement. In such circumstances, volatility from interest rate movements is reflected in Non-interest revenue.

Fair value hedge

For the year ended October 31, 2002, the ineffective portions recognized in Non-interest revenue amounted to a net unrealized gain of $10 million (2001 — $11 million loss). All components of each derivative's change in fair value have been included in the assessment of fair value hedge effectiveness.

We did not hedge any firm commitments for the year ended October 31, 2002.

Cash flow hedge

For the year ended October 31, 2002, a net unrealized loss of $50 million (2001 — $190 million, net of FAS 133 transition adjustment), was recorded in Other comprehensive income for the effective portion of changes in fair value of derivatives designated as cash flow hedges. The amounts recognized as Other comprehensive income are reclassified to Net income in the periods in which Net income is affected by the variability in cash flows of the hedged item. A net loss of $113 million (2001 — nil) was reclassified to Net income during the year. A net loss of $59 million (2001 — $81 million) deferred in Accumulated other comprehensive income as at October 31, 2002, is expected to be reclassified to Net income during the next 12 months.

For the year ended October 31, 2002, a net unrealized gain of $9 million (2001 — $20 million) was recognized in Non-interest revenue for the ineffective portions of cash flow hedges. All components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness.

We did not hedge any forecasted transactions for the year ended October 31, 2002.

Derivatives — Notional amounts

Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and are a common measure of business volume. The following table provides the notional amounts of our derivative transactions by term to maturity.

Notional amount of derivatives by term to maturity (1)

	Term to maturity				2002		2001	
	Within 1 year	1 to 5 years	Over 5 years (2)	Total	Trading	Other than trading	Trading	Other than trading
Over-the-counter (OTC) contracts								
Interest rate contracts								
Forward rate agreements	**$ 184,487**	**$ 14,358**	**$ —**	**$ 198,845**	**$ 194,537**	**$ 4,308**	$ 95,678	$ —
Swaps	**264,829**	**418,082**	**179,353**	**862,264**	**794,961**	**67,303**	628,735	69,167
Options purchased	**8,193**	**35,623**	**11,477**	**55,293**	**55,289**	**4**	19,787	114
Options written	**9,306**	**34,564**	**12,304**	**56,174**	**56,080**	**94**	22,177	—
Foreign exchange contracts								
Forward contracts	**507,410**	**33,673**	**3,636**	**544,719**	**522,035**	**22,684**	528,467	17,969
Cross currency swaps	**893**	**3,405**	**5,609**	**9,907**	**9,907**	**—**	8,618	—
Cross currency interest rate swaps	**10,286**	**37,315**	**26,547**	**74,148**	**71,050**	**3,098**	63,405	2,796
Options purchased	**53,200**	**3,004**	**—**	**56,204**	**56,160**	**44**	48,542	612
Options written	**58,594**	**3,242**	**—**	**61,836**	**61,209**	**627**	54,133	—
Credit derivatives (3)	**3,625**	**37,333**	**11,193**	**52,151**	**50,928**	**1,223**	20,952	955
Other contracts (4)	**9,514**	**5,221**	**7,884**	**22,619**	**22,085**	**534**	20,170	2,643

Exchange-traded contracts								
Interest rate contracts								
Futures — long positions	**19,207**	**7,535**	**19**	**26,761**	**26,761**	**—**	20,319	—
Futures — short positions	**31,583**	**5,185**	**25**	**36,793**	**36,500**	**293**	43,232	87
Options purchased	**1,418**	**1**	**—**	**1,419**	**640**	**779**	13,352	—
Options written	**2,368**	**2**	**—**	**2,370**	**2,059**	**311**	12,079	—
Foreign exchange contracts								
Futures — long positions	**27**	**—**	**—**	**27**	**27**	**—**	348	—
Futures — short positions	**321**	**—**	**—**	**321**	**321**	**—**	144	—
Other contracts (4)	**18,356**	**455**	**—**	**18,811**	**18,811**	**—**	58,130	—
	$1,183,617	**$638,998**	**$258,047**	**$2,080,662**	**$1,979,360**	**$101,302**	$1,658,268	$94,343

(1) The notional amount of $5,593 million (2001 — $1,693 million) of derivatives embedded in financial instruments, certain warrants and loan commitments considered as derivatives are excluded from the amounts in this table.
(2) Includes contracts maturing in over 10 years with a notional value of $37,322 million (2001 — $19,637 million). The related gross positive replacement cost is $1,291 million (2001 — $950 million).
(3) Comprises credit default swaps, total return swaps and credit default baskets.
(4) Comprises precious metals, commodity and equity-linked derivative contracts.

Derivative-related credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to us. This market value is referred to as replacement cost since it is an estimate of what it would cost to replace transactions at prevailing market rates if a default occurred.

For internal risk management purposes, the credit equivalent amount arising from a derivative transaction is defined as the sum of the replacement cost plus an add-on that is an estimate of the potential change in the market value of the transaction through to maturity. The add-on is determined by statistically based models that project the expected volatility of the variable(s) underlying the derivative, whether interest rate, foreign exchange rate, equity or commodity price. Both the

NOTE 19 Derivative financial instruments (continued)

replacement cost and the add-on are continually re-evaluated over the life of each transaction to ensure that sound credit risk valuations are used. The risk-adjusted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. The two main categories of netting are close-out netting and settlement netting. Under the close-out netting provision, if the counterparty defaults, we have the right to terminate all transactions covered by the master agreement at the then-prevailing market values and to sum the resulting market values, offsetting negative against positive values, to arrive at a single net amount owed by either the counterparty or us. Under the settlement netting provision, all payments and receipts in the same currency and due on the same day between specified pairs including us and the counterparty units are netted, generating a single payment in each currency, due either by us or the counterparty unit. We actively encourage counterparties to enter into master netting agreements. However, measurement of our credit exposure arising out of derivative transactions is not reduced to reflect the effects of netting unless the enforceability of that netting is supported by appropriate legal analysis as documented in our policy.

To further manage derivative-related counterparty credit exposure, we enter into agreements containing mark-to-market cap provisions with some counterparties. Under such provisions, we have the right to request that the counterparty pay down or collateralize the current market value of its derivatives position with us. The use of collateral does not currently represent a significant credit mitigation technique for us in managing derivative-related credit risk.

We subject our derivative-related credit risks to the same credit approval, limit and monitoring standards that we use for managing other transactions that create credit exposure. This includes evaluation of counterparties as to creditworthiness, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process. We utilize a single internal rating system for all credit risk exposure. In most cases, these internal ratings approximate the external risk ratings of public rating agencies. The tables below show replacement cost, credit equivalent and risk-adjusted amounts of our derivatives both before and after the impact of netting. During 2002 and 2001, neither our actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

Replacement cost of derivative financial instruments by risk rating and by counterparty type (1)

	Risk rating (2)					Counterparty type (3)			
As at October 31, 2002	**AAA, AA**	**A**	**BBB**	**BB or lower**	**Total**	**Banks**	**OECD governments**	**Other**	**Total**
Gross positive replacement cost (4)	$ 15,442	$11,008	$ 3,421	$1,580	$ 31,451	$ 21,427	$ 2,068	$ 7,956	$ 31,451
Impact of master netting agreements	(10,638)	(7,208)	(2,142)	(873)	(20,861)	(16,343)	—	(4,518)	(20,861)
Replacement cost (after netting agreements)	$ 4,804	$ 3,800	$ 1,279	$ 707	$ 10,590	$ 5,084	$ 2,068	$ 3,438	$ 10,590
Replacement cost (after netting agreements) — 2001	$ 3,583	$ 4,322	$ 1,515	$ 529	$ 9,949	$ 3,652	$ 1,892	$ 4,405	$ 9,949

(1) The replacement cost of $93 million (2001 — $49 million) of derivatives embedded in financial instruments, certain warrants and loan commitments considered as derivative are excluded from the amounts in this table.
(2) Our internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings.
(3) Counterparty type is defined in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.
(4) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded instruments are subject to daily margin requirements and are excluded as they are deemed to have no additional credit risk. The fair value of $194 million (2001 — $194 million) is excluded at October 31, 2002. Written options are excluded as they represent our obligations and as such do not attract credit risk.

Derivative-related credit risk (1)

	2002			2001		
	Replacement cost (2)	**Credit equivalent amount (3)**	**Risk-adjusted balance (4)**	**Replacement cost (2)**	**Credit equivalent amount (3)**	**Risk-adjusted balance (4)**
Interest rate contracts						
Forward rate agreements	**$ 178**	**$ 299**	**$ 64**	$ 108	$ 543	$ 114
Swaps	**19,608**	**24,357**	**6,323**	17,568	21,390	5,617
Options purchased	**563**	**914**	**258**	416	538	123
	20,349	**25,570**	**6,645**	18,092	22,471	5,854

Foreign exchange contracts						
Forward contracts	**6,802**	**13,049**	**3,685**	6,839	12,977	3,881
Swaps	**1,781**	**6,341**	**1,445**	1,902	5,536	1,261
Options purchased	**809**	**1,491**	**439**	721	1,339	441
	9,392	**20,881**	**5,569**	9,462	19,852	5,583
Credit derivatives (5)	**861**	**2,963**	**858**	87	1,249	369
Other contracts (6)	**849**	**1,701**	**529**	1,140	2,015	617
Derivatives before master netting agreements	**31,451**	**51,115**	**13,601**	28,781	45,587	12,423
Impact of master netting agreements	**(20,861)**	**(26,930)**	**(7,132)**	(18,832)	(24,450)	(6,339)
Total derivatives after master netting agreements	**$ 10,590**	**$ 24,185**	**$ 6,469**	$ 9,949	$ 21,137	$ 6,084

(1) The replacement cost of $93 million (2001 — $49 million) of derivatives embedded in financial instruments, certain warrants and loan commitments considered as derivatives are excluded from the amounts in this table.
(2) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded instruments are subject to daily margin requirements and are excluded as they are deemed to have no additional credit risk. The fair value of $194 million (2001 — $194 million) is excluded at October 31, 2002. Written options are excluded as they represent our obligations and as such do not attract credit risk.
(3) Consists of (i) the total positive replacement value of all outstanding contracts, and (ii) an amount for potential future credit exposure.
(4) Using guidelines issued by the Superintendent of Financial Institutions Canada.
(5) Comprises credit default swaps, total return swaps and credit default baskets.
(6) Comprises precious metals, commodity and equity-linked derivative contracts.

NOTE 20 Concentrations of credit risk

Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of our performance to developments affecting a particular industry or geographic location. The concentrations described below are within limits as established by management.

	2002								
	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets (1)	**$158,059**	**73%**	**$32,450**	**15%**	**$18,917**	**9%**	**$ 5,979**	**3%**	**$215,405**
Off-balance sheet credit instruments (2)									
Committed and uncommitted(3)	**$ 60,397**	**50%**	**$45,573**	**38%**	**$13,863**	**11%**	**$ 1,191**	**1%**	**$121,024**
Other	**23,266**	**61**	**10,723**	**28**	**4,235**	**11**	**148**	**—**	**38,372**
	$ 83,663	**53%**	**$56,296**	**35%**	**$18,098**	**11%**	**$ 1,339**	**1%**	**$159,396**
Derivatives before master netting agreements (4), (5), (6)	**$ 7,734**	**25%**	**$ 9,887**	**31%**	**$12,232**	**39%**	**$ 1,598**	**5%**	**$ 31,451**

[Additional columns below]

[Continued from above table, first column(s) repeated]

	2001								
	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets (1)	$164,429	76%	$29,612	14%	$17,124	8%	$ 5,805	2%	$216,970
Off-balance sheet credit instruments (2)									
Committed and uncommitted(3)	$ 76,832	56%	$43,508	32%	$14,465	10%	$ 3,084	2%	$137,889
Other	20,990	59	9,893	28	4,436	12	331	1	35,650
	$ 97,822	56%	$53,401	31%	$18,901	11%	$ 3,415	2%	$173,539
Derivatives before master netting agreements (4), (5), (6)	$ 6,899	24%	$ 9,154	32%	$11,741	41%	$ 987	3%	$ 28,781

(1) Includes assets purchased under reverse repurchase agreements, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 38% (2001 — 39%) and British Columbia at 11% (2001 — 12%). No industry accounts for more than 10% of total on-balance sheet credit instruments.

(2) Represents financial instruments with contractual amounts representing credit risk.

(3) Of the commitments to extend credit, the largest industry concentration relates to financial institutions at 35% (2001 — 34%), mining and energy at 15% (2001 — 15%), transportation at 8% (2001 — 10%) and manufacturing at 8% (2001 — 10%).

(4) The largest concentration by counterparty type of this credit exposure is with banks at 68% (2001 — 64%).

(5) The replacement cost of $93 million (2001 — $49 million) of derivatives embedded in financial instruments, certain warrants and loan commitments considered as derivatives are excluded from the amounts in this table.

(6) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded instruments are subject to daily margin requirements and are excluded as they are deemed to have no additional credit risk. The fair value of $194 million (2001 — $194 million) is excluded at October 31, 2002. Written options are excluded as they represent our obligations and as such do not attract credit risk.

NOTE 21 Estimated fair value of financial instruments

The estimated fair values disclosed below are designed to approximate values at which these instruments could be exchanged in a current transaction between willing parties. However, many of the financial instruments lack an available trading market and therefore, fair values are based on estimates using net present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Furthermore, due to the use of subjective judgment and uncertainties, the aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The estimated fair values disclosed below do not reflect the value of assets and liabilities that are not considered financial instruments such as premises and equipment.

Financial assets and liabilities

	2002			2001		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Financial assets						
Cash resources	**$ 21,293**	**$ 21,293**	**$ —**	$ 17,516	$ 17,535	$ 19
Securities	**95,353**	**95,353**	**—**	81,100	81,100	—
Assets purchased under reverse repurchase agreements	**35,831**	**35,831**	**—**	35,870	35,870	—
Loans	**169,320**	**171,546**	**2,226**	168,899	173,263	4,364
Other assets	**51,679**	**51,679**	**—**	50,668	50,668	—
Financial liabilities						
Deposits	**245,040**	**246,515**	**(1,475)**	235,687	238,092	(2,405)
Acceptances	**8,051**	**8,051**	**—**	9,923	9,923	—
Obligations related to securities sold short	**17,990**	**17,990**	**—**	16,037	16,037	—
Obligations related to assets sold under repurchase agreements	**21,109**	**21,109**	**—**	20,864	20,864	—
Other liabilities	**61,639**	**61,639**	**—**	52,890	52,890	—
Subordinated debentures	**6,960**	**6,935**	**25**	6,861	6,845	16

NOTE 21 Estimated fair value of financial instruments (continued)

Derivatives (1)

	2002				2001	
	Average fair value for the year ended (2)		Year-end fair value		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative
Held or issued for trading purposes						
Interest rate contracts						
Forward rate agreements	**$ 96**	**$ 82**	**$ 178**	**$ 177**	$ 108	$ 79
Swaps	**13,650**	**14,323**	**18,468**	**18,930**	16,211	16,692
Options purchased	**385**	**—**	**564**	**—**	442	—
Options written	**—**	**325**	**—**	**474**	—	352
	14,131	**14,730**	**19,210**	**19,581**	16,761	17,123
Foreign exchange contracts						
Forward contracts	**7,539**	**6,934**	**6,568**	**6,260**	6,800	5,868
Cross currency swaps	**501**	**294**	**504**	**340**	518	315
Cross currency interest rate swaps	**1,462**	**1,853**	**1,109**	**1,678**	1,309	1,975
Options purchased	**827**	**—**	**809**	**—**	715	—
Options written	**—**	**729**	**—**	**586**	—	560
	10,329	**9,810**	**8,990**	**8,864**	9,342	8,718
Credit derivatives (3)	**273**	**259**	**822**	**483**	84	79
Other contracts (4)	**1,077**	**2,853**	**1,028**	**3,093**	1,012	2,650
	$25,810	**$27,652**	**30,050**	**32,021**	27,199	28,570
Held or issued for other than trading purposes						
Interest rate contracts						
Forward rate agreements			**—**	**49**	—	—
Swaps			**1,140**	**842**	1,357	1,104
Options purchased			**1**	**—**	—	—
Options written			**—**	**13**	—	—
			1,141	**904**	1,357	1,104
Foreign exchange contracts						
Forward contracts			**234**	**94**	39	313
Cross currency interest rate swaps			**168**	**24**	75	50
Options purchased			**—**	**—**	6	—
Options written			**—**	**3**	—	—
			402	**121**	120	363
Credit derivatives (3)			**39**	**8**	3	3
Other contracts (4)			**13**	**—**	296	48
			1,595	**1,033**	1,776	1,518
Total gross fair values before netting			**31,645**	**33,054**	28,975	30,088
Impact of master netting agreements						
With intent to settle net or simultaneously (5)			**(12)**	**(12)**	(39)	(39)
Without intent to settle net or simultaneously (6)			**(20,849)**	**(20,849)**	(18,793)	(18,793)
Total			**$ 10,784**	**$ 12,193**	$ 10,143	$ 11,256

(1) The fair value amount of $93 million (2001 — $49 million) of derivatives embedded in financial instruments, certain warrants and loan commitments considered as derivatives are excluded from the amounts in this table.

(2) Average fair value amounts are calculated based on monthly balances.

(3) Comprises credit default swaps, total return swaps and credit default baskets.

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

(5) Impact of offsetting credit exposures on contracts where we have both a legally enforceable master netting agreement in place and we intend to settle the contracts on either a net basis or simultaneously.

(6) Additional impact of offsetting credit exposures on contracts where we have a legally enforceable master netting agreement in place but do not intend to settle the contracts on a net basis or simultaneously.

Methodologies and assumptions used to estimate fair values of financial instruments

Loans The fair value of the business and government loans portfolio is based on an assessment of two key risks as appropriate; interest rate risk and credit risk. Fair value is determined under a discounted cash flow methodology using a discount rate based on interest rates currently charged for new loans with similar terms and remaining maturities, adjusted for a credit risk factor, which is reviewed at least annually. Fair value of the consumer loan portfolio is based on a discounted cash flow methodology adjusted principally for prepayment risk. For certain variable rate loans that reprice frequently and loans without a stated maturity, fair values are assumed to be equal to carrying values.

Securities The fair values of securities are provided in the Securities note to the consolidated financial statements (note 5). These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.

Deposits The fair values of fixed rate deposits with a fixed maturity are determined by discounting the expected future cash flows, using market interest rates currently offered for deposits of similar terms and remaining maturities (adjusted for early redemptions where appropriate). The fair values of deposits with no stated maturity or deposits with floating rates are assumed to be equal to their carrying values.

Other assets/liabilities The carrying values of Other assets and Other liabilities approximate their fair values with the exception of amounts relating to derivative financial instruments held or issued for other than trading purposes. The net fair value over book value for these instruments is shown in Other assets.

Subordinated debentures The fair values of subordinated debentures are based on quoted market prices for similar issues, or current rates offered to us for debt of the same remaining maturity.

Financial instruments valued at carrying value Due to their short term nature, the fair value of cash resources, assets purchased under reverse repurchase agreements, customers' liability under acceptances, our liability under acceptances, obligations related to securities sold short and obligations related to assets sold under repurchase agreements is assumed to approximate carrying value.

Derivative financial instruments The fair values of derivative financial instruments are determined using various methodologies. For exchange-traded instruments, fair value is based on quoted market prices, where available. For non-exchange-traded instruments or where no quoted market prices are available, fair value is based on prevailing market rates for instruments with similar characteristics and maturities, net present value analysis or other pricing models as appropriate.

Quarterly highlights

(C$ millions, taxable equivalent basis, except per share and percentage amounts)	2002 Q4	Q3	Q2	Q1
Consolidated statement of income				
Net interest income	$ 1,818	$ 1,770	$ 1,732	$ 1,871
Provision for credit losses	(235)	(216)	(328)	(286)
Non-interest revenue	2,103	2,101	2,189	2,186
Non-interest expense	(2,601)	(2,515)	(2,519)	(2,609)
Income taxes	(325)	(391)	(338)	(401)
Non-controlling interest	(28)	(27)	(26)	(27)
Net income	$ 732	$ 722	$ 710	$ 734
Cash net income (1)	$ 749	$ 738	$ 724	$ 751
Core cash net income (1)	$ 749	$ 738	$ 724	$ 751
Earnings per share (2)				
Basic	$ 1.06	$ 1.04	$ 1.02	$ 1.05
Diluted	1.05	1.02	1.01	1.04
Cash diluted (1)	1.07	1.05	1.03	1.07
Core cash diluted (1)	1.07	1.05	1.03	1.07
Performance ratios				
Return on common equity	16.3%	16.1%	16.8%	17.1%
Cash return on common equity (1)	16.7	16.5	17.1	17.5
Core cash return on common equity (1)	16.7	16.5	17.1	17.5
Return on assets	.76	.78	.78	.79
Return on assets after preferred dividends	.73	.75	.76	.77
Net interest margin (3)	1.89	1.91	1.91	2.03
Non-interest revenue as a % of gross revenues	53.6	54.3	55.8	53.9
Consolidated balance sheet				
Assets				
Cash resources and securities	$ 116,646	$ 111,203	$ 110,105	$ 103,920
Assets purchased under reverse repurchase agreements	35,831	34,938	33,373	30,503
Residential mortgage loans	72,842	70,641	70,118	69,438
Personal loans	31,956	32,222	32,292	31,600
Credit card loans	4,914	4,774	4,445	4,338
Business and government loans	61,811	64,187	63,602	64,285
Allowance for loan losses	(2,203)	(2,218)	(2,338)	(2,345)
Other assets	60,135	61,789	49,650	56,661
	$ 381,932	$ 377,536	$ 361,247	$ 358,400
Liabilities and shareholders' equity				
Deposits — Canada	$ 142,959	$ 138,801	$ 139,125	$ 139,862
Deposits — International	102,081	107,239	98,626	96,410
Other liabilities	109,708	103,791	96,181	95,035
Subordinated debentures	6,960	7,318	7,245	7,340
Non-controlling interest in subsidiaries	1,469	1,444	1,466	1,440
Total equity	18,755	18,943	18,604	18,313
	$ 381,932	$ 377,536	$ 361,247	$ 358,400
Selected average balances and off-balance sheet data				
Averages				
Assets	$ 382,200	$ 367,400	$ 371,100	$ 366,400
Loans and acceptances	178,004	175,364	177,438	179,128
Deposits	248,828	238,647	239,470	242,013
Common equity	17,223	17,139	16,770	16,459
Total equity	18,855	18,800	18,445	18,210
Assets under administration	1,365,900	1,413,100	1,442,800	1,426,600
Assets under management	90,800	94,200	96,200	103,300
Provision for credit losses				
Allocated specific	$ 235	$ 216	$ 328	$ 286
Allocated general	(15)	4	—	(11)

Total allocated	**220**	**220**	**328**	**275**
Unallocated	**15**	**(4)**	**—**	**11**
Total	**$ 235**	**$ 216**	**$ 328**	**$ 286**
Nonaccrual loans as a % of loans and acceptances	**1.27%**	**1.32%**	**1.41%**	**1.52%**
Capital ratios (Canadian basis)				
Common equity/risk-adjusted assets	**10.4%**	**10.2%**	**10.0%**	**9.8%**
Tier 1	**9.3**	**9.1**	**9.0**	**8.8**
Total	**12.7**	**12.7**	**12.6**	**12.3**
Capital ratios (U.S. basis)				
Common equity/risk-adjusted assets	**10.5%**	**10.3%**	**10.0%**	**9.8%**
Tier 1	**8.5**	**8.5**	**8.4**	**8.1**
Total	**11.9**	**12.0**	**11.9**	**11.6**
Common share information				
Shares outstanding (in thousands)				
End of period	**665,257**	**671,671**	**673,860**	**673,596**
Average basic	**668,868**	**673,787**	**673,751**	**674,465**
Average diluted	**676,010**	**680,712**	**680,336**	**679,729**
Dividends per share	**$ .40**	**$ .38**	**$ .38**	**$ .36**
Book value per share	**25.91**	**25.71**	**25.13**	**24.70**
Common share price — High (4)	**57.55**	**58.89**	**57.07**	**52.45**
Low (4)	**48.80**	**45.05**	**46.36**	**46.81**
Close	**54.41**	**53.45**	**54.97**	**50.00**
Dividend yield	**3.0%**	**2.9%**	**2.9%**	**2.9%**
Dividend payout ratio	**38%**	**37%**	**37%**	**34%**

[Additional columns below]

[Continued from above table, first column(s) repeated]

	2001			
(C$ millions, taxable equivalent basis, except per share and percentage amounts)	**Q4**	**Q3**	**Q2**	**Q1**
Consolidated statement of income				
Net interest income	$ 1,772	$ 1,715	$ 1,569	$ 1,473
Provision for credit losses	(425)	(236)	(210)	(248)
Non-interest revenue	2,265	1,963	1,940	1,987
Non-interest expense	(2,636)	(2,598)	(2,263)	(2,144)
Income taxes	(268)	(380)	(383)	(351)
Non-controlling interest	(28)	(28)	(29)	(22)
Net income	$ 680	$ 436	$ 624	$ 695
Cash net income (1)	$ 803	$ 518	$ 674	$ 726
Core cash net income (1)	$ 564	$ 664	$ 674	$ 615
Earnings per share (2)				
Basic	$ .95	$ .60	$ .96	$ 1.09
Diluted	.94	.60	.95	1.08
Cash diluted (1)	1.12	.72	1.03	1.13
Core cash diluted (1)	.78	.94	1.03	.96
Performance ratios				
Return on common equity	15.7%	10.8%	19.2%	21.9%
Cash return on common equity (1)	18.6	13.1	20.8	23.0
Core cash return on common equity (1)	12.9	17.0	20.8	19.3
Return on assets	.78	.50	.78	.89
Return on assets after preferred dividends	.74	.46	.74	.85
Net interest margin (3)	2.03	1.98	1.97	1.89
Non-interest revenue as a % of gross revenues	56.1	53.4	55.3	57.4
Consolidated balance sheet				
Assets				
Cash resources and securities	$ 98,616	$ 95,684	$ 87,408	$ 83,634
Assets purchased under reverse repurchase agreements	35,870	25,101	26,453	21,713
Residential mortgage loans	67,444	66,499	64,559	63,418
Personal loans	32,511	32,264	29,713	30,573
Credit card loans	4,283	4,128	4,862	4,961
Business and government loans	66,939	65,111	59,989	60,328
Allowance for loan losses	(2,278)	(2,173)	(1,951)	(1,947)

Other assets	59,098	48,288	47,910	44,131
	$ 362,483	$ 334,902	$ 318,943	$ 306,811
Liabilities and shareholders' equity				
Deposits — Canada	$ 140,558	$ 138,095	$ 141,000	$ 135,093
Deposits — International	95,129	87,226	73,506	71,213
Other liabilities	100,251	82,917	81,117	78,133
Subordinated debentures	6,861	6,649	6,992	6,447
Non-controlling interest in subsidiaries	1,479	1,453	1,481	1,453
Total equity	18,205	18,562	14,847	14,472
	$ 362,483	$ 334,902	$ 318,943	$ 306,811
Selected average balances and off-balance sheet data				
Averages				
Assets	$ 346,300	$ 344,100	$ 326,900	$ 309,000
Loans and acceptances	178,042	173,951	168,600	167,863
Deposits	232,928	224,268	215,988	210,238
Common equity	16,450	14,596	12,639	11,955
Total equity	18,497	16,725	14,648	13,952
Assets under administration	1,342,500	1,271,800	1,198,700	1,242,800
Assets under management	100,000	110,500	110,400	112,500
Provision for credit losses				
Allocated specific	$ 425	$ 236	$ 210	$ 178
Allocated general	108	—	—	97
Total allocated	533	236	210	275
Unallocated	(108)	—	—	(27)
Total	$ 425	$ 236	$ 210	$ 248
Nonaccrual loans as a % of loans and acceptances	1.36%	1.23%	1.18%	1.03%
Capital ratios (Canadian basis)				
Common equity/risk-adjusted assets	9.4%	9.5%	8.0%	7.6%
Tier 1	8.7	9.3	8.8	8.3
Total	11.8	12.3	12.3	11.5
Capital ratios (U.S. basis)				
Common equity/risk-adjusted assets	9.5%	9.5%	8.1%	7.7%
Tier 1	8.1	8.5	8.4	8.0
Total	11.2	11.6	11.9	11.1
Common share information				
Shares outstanding (in thousands)				
End of period	674,021	683,312	616,516	616,209
Average basic	681,758	658,296	616,365	608,824
Average diluted	687,334	663,996	621,907	614,686
Dividends per share	$ .36	$ .36	$ .33	$ .33
Book value per share	24.06	23.87	20.82	20.26
Common share price — High (4)	53.25	51.50	51.25	52.80
Low (4)	41.60	42.80	42.42	45.10
Close	46.80	50.96	42.95	48.20
Dividend yield	3.0%	3.1%	2.8%	2.7%
Dividend payout ratio	38%	62%	35%	31%

(1) Cash net income, cash diluted earnings per share and cash return on common equity are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles. Further deducting the impact of special items results in core cash net income, core cash diluted earnings per share and core cash return on common equity.

(2) Earnings per share for the year may not equal the sum of the quarters.

(3) Net interest income as a percentage of average assets.

(4) Intraday high and low share prices.

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Caution regarding forward-looking statements

From time to time, we make 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 our objectives for 2003, and the medium and long terms, and strategies to achieve those objectives, as well as statements with respect to our 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. We caution 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 we conduct operations; the strength of the United States economy and the economies of other nations in which we conduct 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 we operate; inflation; capital market and currency market fluctuations; the timely development and introduction of new products and services 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; our ability to complete strategic acquisitions and to integrate acquisitions; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and saving habits; the possible impact on our businesses of international conflicts and other developments including those relating to the war on terrorism; and our anticipation of and success in managing the risks implicated by the foregoing.

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

Management's discussion and analysis

We evaluate our performance on a reported basis (i.e., as reported in our consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP)) as well as on a core basis (i.e., excluding special items). We view special items as transactions that are not part of normal day-to-day business operations or are unusual in nature, thereby obscuring or distorting our analysis of trends. The special items in 2001, shown in Table 6 on page 27A, total $230 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 enactments of tax rate reductions. There were no special items in 2002. Certain earnings measures, such as core earnings, do not have a standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. Our recent U.S. acquisitions include RBC Centura Banks, Inc. (now includes Eagle Bancshares, Inc., RBC Mortgage and what was previously Security First Network Bank (SFNB)), RBC Liberty Insurance and RBC Dain Rauscher (includes Tucker Anthony Sutro Corporation). We present information on a core basis because some investors may also find it useful in evaluating financial performance and analyzing trends in our businesses.

The analysis and discussion that follows on pages 22A to 66A contains comparisons to 2001 that are generally based on the 2001 core numbers (i.e., excluding special items shown on page 27A). The consolidated financial statements prepared in accordance with Canadian GAAP are on pages 67A to 97A.

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

Overview

TABLE 1 Net income

($ millions, except percentage amounts)	% change	2002	2001
Net income (1)	15%	**$ 2,762**	$ 2,411
Impact of special items (2)		**—**	(230)
Core net income	27%	**$ 2,762**	$ 2,181

(1) Net income includes goodwill amortization expense of $246 million in 2001 (nil in 2002).

(2) Special items are shown in Table 6 on page 27A.

TABLE 2 Diluted earnings per share (EPS)

($, except percentage amounts)	% change	2002	2001
EPS (1)	12%	**$ 3.93**	$ 3.52
Impact of special items (2)		**—**	(.36)
Core EPS	24%	**$ 3.93**	$ 3.16

(1) EPS includes goodwill amortization expense of $.38 per share in 2001 (nil in 2002).

(2) Special items are shown in Table 6 on page 27A.

As shown in the tables above, full year net income increased $351 million or 15% (12% on a per share basis). Excluding special items of $230 million ($.36 per share) in 2001 detailed on page 27A, full year net income was up $581 million or 27% and EPS were up 24%. Excluding special items and goodwill amortization expenses of $246 million in 2001, net income was up $335 million or 14% and EPS were up $.39 or 11% in 2002 compared to 2001. This $335 million growth was largely driven by a $132 million increase in net income from recent U.S. acquisitions (excluding goodwill amortization expenses in 2001), cost savings of approximately $165 million after-tax from operations other than our recent U.S. acquisitions and lower provisions for credit losses of approximately $37 million after-tax.

On November 1, 2001, we adopted new accounting standards regarding business combinations under which goodwill is no longer amortized and is instead assessed for impairment at least annually. Accordingly, we did not incur goodwill amortization expense this year, whereas, in 2001, we incurred goodwill amortization expense of $246 million after-tax ($.38 per share).

Net income from our recent U.S. acquisitions was $180 million in 2002, up from $(114) million in 2001 ($(57) million excluding special items), partially reflecting the cessation of goodwill amortization this year, which accounted for $105 million of the net income improvement.

Excluding special items and goodwill amortization expenses, recent U.S. acquisitions resulted in an increase in net income of $132 million, largely reflecting the acquisition of Centura Banks, Inc. on June 5, 2001, which contributed seven more months of earnings in 2002 compared to 2001, synergies achieved from the integration of Tucker Anthony Sutro (acquired on October 31, 2001) into RBC Dain Rauscher, and stronger

performance from RBC Dain Rauscher's fixed income business.

The lower growth rate in EPS than in net income reflected 32 million additional average common shares outstanding in 2002 as compared to last year. This largely reflects the issuance of common shares in last year's third quarter in connection with the share exchange for the acquisition of Centura Banks, partially offset by share repurchases during 2002.

As shown in Table 3 below, in 2002, U.S. and Other International revenues were $5.8 billion or 37% of total revenues, up from $4.2 billion or 28% in 2001. Recent U.S. acquisitions resulted in U.S. revenues increasing to $4.3 billion or 27% of total revenues, from $2.8 billion or 19% in 2001.

Total U.S. net income improved to $154 million from $(173) million in 2001 ($(116) million excluding special items), despite higher provisions for credit losses this year, largely for the reasons described above.

TABLE 3 Earnings by geographic segment

	2002				2001			
($ millions, taxable equivalent basis)	**Canada**	**United States**	**Other International**	**Total**	**Canada**	**United States**	**Other International**	**Total**
Net interest income	**$5,556**	**$1,262**	**$ 380**	**$ 7,198**	$ 5,614	$ 485	$ 450	$ 6,549
Other income	**4,411**	**3,040**	**1,111**	**8,562**	4,972	2,355	888	8,215
Gross revenues	**9,967**	**4,302**	**1,491**	**15,760**	10,586	2,840	1,338	14,764
Provision for credit losses	**529**	**440**	**96**	**1,065**	757	379	(17)	1,119
Non-interest expense	**5,920**	**3,676**	**824**	**10,420**	6,326	2,715	714	9,755
Income taxes (1)	**1,432**	**32**	**49**	**1,513**	1,537	(81)	23	1,479
Net income	**$2,086**	**$ 154**	**$ 522**	**$ 2,762**	$ 1,966	$ (173)	$ 618	$ 2,411
Core net income (2)	**$2,086**	**$ 154**	**$ 522**	**$ 2,762**	$ 1,679	$ (116)	$ 618	$ 2,181

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

(2) Excludes special items in 2001, which are described in Table 6 on page 27A. There were no special items in 2002.

Outlook

We are targeting growth in diluted earnings per share of 10—15% and a return on common equity of 17—19% in fiscal 2003 based on the expectations that our cost management efforts will allow expenses to grow at a lower rate than revenues and that capital market activity will pick up somewhat in 2003.

Financial priorities

Revenue growth and diversification

In 2002, revenues increased 7%, primarily reflecting recent U.S. acquisitions. Operating, or core, revenues (i.e., excluding special items in 2001) increased 10%, also primarily reflecting recent U.S. acquisitions, and were higher than our objective of core revenue growth of 7—10%. Excluding recent U.S. acquisitions, operating revenues were flat. Detailed discussion follows on pages 38A to 41A.

Cost control

Non-interest expense increased 7% and operating non-interest expense (which excludes special items, the costs of Stock Appreciation Rights (SARs) and retention compensation associated with acquisitions) increased 8%, reflecting recent U.S. acquisitions. Operating expenses excluding recent U.S. acquisitions were down 5%. A full description is provided on pages 42A to 44A.

Strong credit quality

Provisions for credit losses and impaired loans declined this year despite further deterioration in the telecommunication sector. The specific provision for credit losses ratio was .51% (.49% net of effect of credit derivatives) in 2002 compared to .53% in 2001. During the year, net write-offs were .60% compared to .47% in 2001. Detailed discussion and tables are provided on pages 45A to 52A.

Balance sheet and capital management

Total assets were $377 billion at October 31, 2002, up $17.7 billion or 5% from October 31, 2001. At October 31, 2002, using Superintendent of Financial Institutions Canada (OSFI) guidelines and Canadian GAAP financial information, our Tier 1 capital ratio was 9.3% versus 8.7% at October 31, 2001, while the Total capital ratio was 12.7% versus 11.8% at October 31, 2001. Both ratios were above our medium-term (3—5 year) capital goals of 8% for Tier 1 capital and 11—12% for Total capital. More details are provided on pages 58A to 60A.

Factors that may affect future results

There are numerous factors, many beyond our control, that could cause results to differ significantly from our expectations. Some of these factors are described below. Other factors, including credit, market, liquidity, insurance, operational and other risks are described in the Risk management section beginning on page 53A.

By their very nature, and as noted in the “Caution regarding forward-looking statements” on page 21A, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on such statements in this management discussion and analysis as a number of important factors could cause actual results to differ materially from the plans, objectives, goals, targets, expectations, estimates and intentions expressed in such forward-looking statements.

Industry and non-company factors

As an integrated financial services company conducting business in Canada, the United States and other countries, our revenues and earnings are affected by the health of the economic, business and capital markets environments specific to the geographic regions in which we conduct business.

Factors such as interest rates, inflation, exchange rates, consumer spending, business investment, government spending, the health of the capital markets and terrorism impact the business and economic environment and, ultimately, the amount of business we conduct in a specific geographic region. For example, in an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and consumer spending, the demand for our loan and other products would be adversely affected and the provision for credit losses would likely increase, resulting in lower earnings. Similarly, a continuation or worsening of the current prolonged downturn in the equity markets could cause a further reduction in new issue and investor trading activity, assets under management (AUM),and assets under administration (AUA) resulting in lower fee, commission and other revenues.

Our earnings are affected by the monetary policies of the Bank of Canada and the Board of Governors of the Federal Reserve System in the United States.

Changes in the supply of money and the level of interest rates can impact our profitability. A decline in interest rates would result in a decrease in the net interest income earned on our non-trading portfolio and an increase in the value of our long principal positions of securities subject to interest rate risk. Conversely, an increase in interest rates would result in an increase in the net interest income earned on our non-trading portfolio and a decrease in the value of our long principal positions of securities subject to interest rate risk. For a more complete discussion of interest rate risk and its potential impact on our non-trading portfolio, please refer to the discussion of asset/liability management activities in our non-trading portfolio on page 61A. For a more complete discussion of interest rate risk and its potential impact on the value of principal position of securities subject to interest rate risk, please refer to the discussion of trading activities on page 55A.

Our performance can be influenced by the degree of competition in the markets in which we operate.

The competition for clients among financial services companies in the consumer and business markets in which we operate is intense. Customer loyalty and retention can be influenced by a number of factors, including relative service levels, the prices of products or services and changes in the attributes of a product or service. Customer loyalty and retention can also be compromised as a result of the client being “cross sold” by a competitor firm. Non-financial companies can provide consumers with the option to pay bills and transfer funds without involving banks. Such dis-intermediation could reduce fee revenues.

Changes in the statutes, regulations and regulatory policies that govern activities in our various business lines could impact our results.

Regulations are in place to protect the financial and other interests of our clients. Changes to statutes, regulations or regulatory policies, including changes in the interpretation or implementation of statutes, regulations or regulatory policies, could affect us by increasing the ability of competitors to compete with the products and services we provide. In addition, our failure to comply with applicable statutes, regulations or regulatory policies could result in sanctions and financial penalties by regulatory agencies that could adversely impact our reputation and earnings.

Although we take reasonable measures to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which we conduct business, there is no assurance that we will always be in compliance or deemed to be in compliance. Accordingly, it is possible that we could receive a judicial or regulatory body judgment that results in fines, damages and other costs that would have a negative impact on our earnings.

Company specific factors

Our financial performance will be influenced by our ability to execute our U.S. expansion and integration strategy.

The first phase of our U.S. expansion strategy entailed putting together the original building blocks by acquiring businesses largely in the personal and commercial banking, insurance and wealth management areas. The second phase entails building scale by adding to these original building blocks through additional strategic acquisitions, increasing revenues through greater market penetration, new product and service offerings, heightened marketing and sales initiatives and through more client referrals between the companies operating in our different business lines. The second phase also entails achieving cost synergies through the integration of the back office and head office functions of our business units. Although we regularly explore opportunities for strategic acquisitions of companies in our lines of business, there is no assurance that we will be able to continue to complete acquisitions on terms and conditions that satisfy our investment criteria. Further, although results to date have met or exceeded our targets, there is no assurance we will continue to achieve anticipated cost synergies from the integration of acquired companies. Our performance is contingent on retaining the clients and key employees of acquired companies, although there can be no assurance that we will always succeed in doing so.

Our business depends on attracting and retaining key employees.

Our success as an integrated financial services company depends to a large extent on our ability to attract and retain key employees. The competition for talented people in the financial services sector is intense. There is no assurance that we will be able to continue to attract and retain key employees, although our policies and practices are geared towards doing so and attrition at the management level is low.

Other factors

Other factors that may affect future results include changes in trade policy, the timely development and introduction of new products and services in receptive markets, changes in tax laws, technological changes, unexpected judicial or regulatory proceedings, unexpected changes in consumer spending and saving habits, the possible impact on our businesses of international conflicts and other developments including those relating to the war on terrorism, and our anticipation of and success in managing the risks implicated by the foregoing.

We caution that the foregoing discussion of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to Royal Bank of Canada, investors and others should carefully consider the foregoing factors, other uncertainties and potential events, and other external and company specific factors that may adversely impact future results and the market valuation placed on our common shares. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by Royal Bank of Canada, or on our behalf.

Critical accounting policies

Our significant accounting policies are outlined in Note 1 on pages 72A to 75A. Certain of these policies require us to make estimates or assumptions that in some cases may relate to matters that are inherently uncertain. These policies include determining the allowance for credit losses, reporting the fair value of certain financial instruments, accounting for securitizations, determining the cost and obligations associated with pensions and postretirement benefits, and valuing goodwill and other intangibles.

Allowance for credit losses

The allowance for credit losses reflects management's estimate of probable losses in our loan and off-balance sheet portfolios at the balance sheet date. We determine and maintain an allowance based on a comprehensive and systematic review of our lending and off-balance sheet portfolios. As mentioned in Note 1 on page 73A, our evaluation focuses on identifying and evaluating problem accounts and estimating probable losses that may exist on the remaining portfolio.

Specific allowances are maintained to absorb losses on both specifically identified borrowers and other more homogeneous loans that have been recognized as impaired. The losses relating to identified large business and government debtors are estimated based on the present value of expected payments on an account-by-account basis. Management's judgment is required when forecasting the amount and timing of expected payments. The losses relating to other portfolio-type products, excluding credit cards, are based on historical net write-off experience. This amount represents the average percentage lost on impaired balances and is based on past history and management's judgment.

The general allocated allowance represents the best estimate of probable losses within the portfolio that have not been specifically identified as impaired. Estimates of portfolio losses are largely dependent on portfolio quality and economic conditions. In addition to the statistical analysis performed, management's judgment is required in determining the following inputs into the models employed:

- Expected default frequency

- Loss severity
- Write-off trends
- Economic conditions, including duration of current cycle

We determine and hold a general unallocated allowance, which explicitly reflects the subjective and judgmental elements involved in our determination of credit risk and the resulting loss estimates. In determining this allowance, management considers general economic and business conditions, regulatory requirements, recent loan loss experience and trends in credit quality and concentration.

The use of different estimates or assumptions in determining the allowance for credit losses may produce significantly different provisions for credit losses and financial results.

Fair value of financial instruments

We hold financial assets and liabilities, which are carried at fair value. These financial instruments comprise assets and liabilities held in our trading portfolio and derivative financial instruments. Fair value for a majority of financial instruments in our portfolios is determined based on quoted market prices and provides the best evidence of value since it is the result of two willing parties transacting in an open market. Note 21 on pages 94A and 95A contains accounting disclosure regarding the estimated fair value of financial instruments.

If quoted market prices are not available for certain assets or liabilities, we use financial valuation models to determine fair value. A provision is made in situations where we believe there is the potential the amount realized on sale will be less than the estimated fair value due to insufficient liquidity over a short period of time. We also maintain a provision for model risk, which may occur when the estimated value does not reflect the true value under certain stress market conditions. All significant financial valuation models are vetted by our risk management function, which is not involved in trading the assets and liabilities and is able to provide an independent perspective. Our internal financial valuation models for accounting are strictly controlled and regularly recalibrated, and require the approval of our risk management function. The assumptions used in the financial models are subject to management's judgment, and different assumptions may produce significantly different fair values and financial results.

As outlined in Note 1 on page 72A, changes in the fair value of trading account assets and liabilities are recognized in earnings. Writedowns to reflect permanent impairment are recognized in earnings. We regularly assess whether permanent impairment exists.

For derivative financial instruments, we determine fair value using various methodologies including quoted market prices, prevailing market values for similar instruments, and net present value of future cash flows and other pricing models. In determining the assumptions used in our pricing and valuation models, where appropriate, we look to external market inputs including factors such as interest rate yield curves, currency rates and price and rate volatilities for options and other derivatives. The use of methodologies, models and assumptions in pricing and valuing derivatives is subjective and requires management's judgment. The use of different methodologies, models and assumptions may result in significantly different fair values and financial results.

Securitizations

Securitization is a process by which we sell loans or other financial assets to a special purpose entity (SPE), which funds the purchase by issuing securities to investors. The return to investors is derived from the cash flows of the loans or other financial assets purchased by the SPE. Details of our securitization activities are contained in Note 7 on page 81A. A discussion of our involvements with SPEs can be found on pages 64A and 65A.

The calculation of the gain or loss on our securitization transactions involves the use of estimates and assumptions including expected credit losses, payment rates, discount rates and estimated future excess spread. The use of different estimates and assumptions may produce significantly different results reported in earnings.

Pensions and postretirement benefits

We offer various pension plans and postretirement benefit plans to our employees. Note 15 on page 87A contains accounting disclosure concerning our obligations with respect to these plans. The determination of obligations under our pension and other postretirement plans and related expense requires the use of actuarial valuation methods and assumptions. Assumptions typically used in determining these amounts include, as applicable, mortality rates, rate of employee turnover, future claims costs, discount rates, future salary and benefit levels, return on plan assets and future medical costs. The fair value of plan assets is determined using market values or approximations of market values for assets where market values are not readily available. Actuarial valuations and the determination of certain market value approximations are subject to management judgment and, as a result, the prepaid benefit asset (obligation) and pension and postretirement expense may differ significantly if different assumptions are used.

Goodwill and other intangibles

As outlined in Note 4 on page 78A, we adopted the Canadian Institute of Chartered Accountants (CICA) standard on *Goodwill and Other Intangibles Assets*. Under this accounting standard, goodwill is no longer amortized but is tested at least annually for impairment at the reporting unit level. Impairment is determined by comparing the fair value of a reporting unit to its carrying value. The fair value of a reporting unit and assets and liabilities within a reporting unit may be determined using a number of market valuations methods including quoted market prices, discounted cash flows and net realizable values. Inherent in each of these valuation techniques is the use of assumptions and estimates. Both the valuation method and the assumptions and estimates used therein are based on management's judgment. The use of different judgments and estimates may produce significantly different results in applying the goodwill impairment test.

Economic Profit

In addition to using traditional measures of financial performance such as net income, EPS and return on common equity (ROE), we also evaluate our performance based on the amount of Economic Profit earned. 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 our proxy for the after-tax return required by shareholders for the use of their capital, to the amount of average common equity, commonly referred to as Economic Capital (EC). The estimated cost of equity is reviewed annually. As the result of a decline in longer-term bond yields since the last review, the cost of common equity was reset mid-year to 11.5% from 12.5%. The average cost of common equity in 2002 was 12%.

Economic Profit does not have any standardized meaning prescribed by GAAP, and therefore the Economic Profit information that we provide is unlikely to be comparable to similar measures presented by other companies. We present information on an Economic Profit basis as it is used by our management and because some investors may also find it useful in evaluating our financial performance and analyzing trends in our businesses.

To create shareholder value from an Economic Profit point of view, 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 the change in value created for shareholders over time, and we believe it is an effective planning tool to focus attention on shareholder value growth opportunities. In order to maximize Economic Profit, one must seek 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

We believe that 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 from weaker to stronger performing businesses.

As shown in Table 4 below, we had Economic Profit of $712 million in 2002, up from $539 million in 2001. This increase is the result of cash operating earnings growing at a faster rate than the capital charge. The Economic Profit amounts for the business segments in 2002 and 2001 are shown in the tables on pages 28A, 30A, 32A, 34A and 36A.

TABLE 4 Economic Profit (1)

($ millions, except percentage amounts)	2002	2001	2000	1999	1998
Net income available to common shareholders	**$ 2,664**	$ 2,276	$ 2,140	$ 1,600	$ 1,679
Adjustment for special items (after-tax)	**—**	(230)	—	102	3
Adjustment for amortization of goodwill and other intangibles (after-tax)	**64**	282	84	63	62
Cash operating earnings	**2,728**	2,328	2,224	1,765	1,744
Capital charge	**(2,016)**	(1,789)	(1,460)	(1,386)	(1,229)
Economic Profit (1)	**$ 712**	$ 539	$ 764	$ 379	$ 515
Economic Profit growth	**32%**	(29)%	102%	(26)%	8%
Average common equity	**$16,809**	$13,843	$10,814	$10,264	$ 9,107
Cost of common equity (2)	**12.0%**	12.9%	13.5%	13.5%	13.5%

(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.

(2) Average for the year.

Line of business results

Overview

Table 5 on page 27A shows our results by business segment in 2002. Our 2001 results include several special items, shown in Table 6 and described below. There were no special items in 2002.

Special items increased net income by $230 million in 2001. There were three items that increased other income — an $89 million gain on

the formation of the Moneris Solutions merchant card processing joint venture with Bank of Montreal, a $43 million gain on the sale of the Group Retirement Services group pension benefits administration business and a $313 million gain on the sale of RT Capital Management's institutional money management business. Non-interest expense increased due to 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 $75 million, reflecting a write-down of deferred tax assets due to reductions in tax rates.

We attribute common equity to our business segments based on an assessment of their credit, market, operational and other risks. Common equity in the Other segment includes equity attributed to specific functional units that are reported in Other, as well as any differences between our total common equity and common equity attributed to our businesses or our functional units. We implemented a number of changes to refine our capital attribution methodologies in early 2002, resulting in higher common equity being attributed to RBC Capital Markets and RBC Investments and lower common equity to RBC Banking and RBC Insurance compared to a year ago. However, the inclusion of a full year of operations of RBC Centura Bank in 2002, as compared to 2001, resulted in more common equity being attributed to RBC Banking. The amount of common equity attributed to the Other segment increased in 2002, largely as the result of internal capital generation outstripping the need to attribute additional common equity to the other five segments, based on an assessment of their risk profiles. Our attribution of capital to the business segments involves various assumptions and judgments.

RBC Banking produced an ROE of 19.1% and generated 55% of our net income in 2002. Net income increased 30% from 2001 and core net income (net income excluding the special items in Table 6) increased $266 million or 21%, as discussed on page 28A. This improvement partially reflected higher core earnings from U.S. acquisitions (which include RBC Centura acquired on June 5, 2001, and RBC Mortgage), which rose to $195 million from $21 million ($73 million excluding goodwill amortization expense) a year ago.

RBC Insurance produced an ROE of 15.7% and generated 4% of our net income in 2002. Net income declined 12% from 2001, as discussed on page 30A. RBC Liberty Insurance (acquired on November 1, 2000) reported a net loss of $18 million in 2002 compared to a loss of $5 million (net income of $8 million excluding goodwill amortization expense) in 2001.

RBC Investments produced an ROE of 11.0% and generated 12% of our net income in 2002. Net income declined by 33% while core net income increased $104 million or 44%, as discussed on page 32A. RBC Dain Rauscher (acquired on January 10, 2001) made a profit of $3 million in 2002 compared to a loss of $73 million ($(33) million excluding goodwill amortization) last year.

RBC Capital Markets produced an ROE of 10% and generated 15% of our net income in 2002. Net income increased 24% and core net income increased 15%, as discussed on page 34A.

RBC Global Services produced an ROE of 28.4% and generated 6% of our net income in 2002. Net income declined by 35% while core net income declined by 8%, as discussed on page 36A.

The Other segment produced an ROE of 24.4% and generated 8% of our net income in 2002. Its 2001 results are shown in Note 3 on page 77A. Gains from the securitization of mortgages contributed to the growth in earnings.

TABLE 5 Results by business segment

	2002							2001	
($ millions, taxable equivalent basis, except per share and percentage amounts)	**RBC Banking**	**RBC Insurance**	**RBC Investments**	**RBC Capital Markets**	**RBC Global Services**	**Other (1)**	**Total**	**Core**	**Reported**
Net interest income	**$5,576**	**$ 223**	**$ 371**	**$ 553**	**$ 137**	**$ 338**	**$ 7,198**	$ 6,549	$ 6,549
Other income	**2,073**	**285**	**3,274**	**2,112**	**820**	**(2)**	**8,562**	7,770	8,215
Gross revenues	**7,649**	**508**	**3,645**	**2,665**	**957**	**336**	**15,760**	14,319	14,764
Provision for credit losses	**626**	**—**	**(1)**	**465**	**10**	**(35)**	**1,065**	1,119	1,119
Non-interest expense	**4,528**	**437**	**3,146**	**1,627**	**668**	**14**	**10,420**	9,664	9,755
Income taxes	**937**	**(46)**	**157**	**135**	**108**	**74**	**1,365**	1,216	1,340
Non-controlling interest	**8**	**—**	**—**	**—**	**—**	**100**	**108**	107	107
Taxable equivalent adjustment	**19**	**—**	**—**	**21**	**—**	**—**	**40**	32	32
Net income	**$1,531**	**$ 117**	**$ 343**	**$ 417**	**$ 171**	**$ 183**	**$ 2,762**	$ 2,181	$ 2,411
Net income									
As a % of total	**55%**	**4%**	**12%**	**15%**	**6%**	**8%**	**100%**	100%	100%
% growth over prior year	**30%**	**(12)%**	**(33)%**	**24%**	**(35)%**	**n.m.**	**15%**		6%
% core growth over prior year	**21%**	**(11)%**	**44%**	**15%**	**(8)%**	**n.m.**	**27%**	(4)%	
ROE	**19.1%**	**15.7%**	**11.0%**	**10.0%**	**28.4%**	**24.4%**	**15.8%**	14.8%	16.4%
Economic Profit (2)	**$ 599**	**$ 27**	**$ (17)**	**$ (76)**	**$ 98**	**$ 81**	**$ 712**	$ 539	$ 539
Diluted EPS							**$ 3.93**	$ 3.16	$ 3.52

(1) Represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

(2) 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.

n.m. not meaningful

TABLE 6 Special items affecting business segment results in 2001 (1)

($ millions, taxable equivalent basis, except per share amounts)	**RBC Banking**	**RBC Insurance**	**RBC Investments**	**RBC Capital Markets**	**RBC Global Services**	**Other (2)**	**Total**
Other income							
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

	7	—	349	—	89	—	445
Non-interest expense							
U.S. retail banking restructuring charge	91	—	—	—	—	—	91
Total impact (pre-tax)	(84)	—	349	—	89	—	354
Income taxes							
On items listed above	(33)	—	70	—	12	—	49
Enactment of change in tax rates	33	(2)	5	28	—	11	75
Total impact (after-tax)	$ (84)	$ 2	$ 274	$ (28)	$ 77	$ (11)	$ 230
Impact on diluted EPS							$ .36

(1) There were no special items at all in 2002.

(2) Represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

RBC Banking

Business profile

RBC Banking serves over 11 million individuals, small and medium-sized businesses, and mid-market 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, accredited financial planners, mobile sales representatives, automated banking machines, and telephone and Internet banking channels. We deliver a wide range of financial services including, deposit accounts, investments and mutual funds, financial planning and advice, credit and debit cards, business and personal loans, and residential and commercial mortgages.

Industry profile

In Canada, personal and commercial banking is a mature industry dominated by the five largest Canadian banks, although competition is fierce and niche players are increasing their presence in select businesses such as credit cards. The U.S. market is more fragmented, although many regional markets are highly competitive. Many banks have expanded their focus to include offering investment products and financial advice and planning to affluent and other targeted clients. Critical success factors, in our opinion, include providing a differentiated client experience and maintaining rigorous credit and operational risk management practices and expense control.

Our strengths

- Customer relationship management (CRM) combined with strong client contact capabilities and specialized sales forces
- Established Canadian retail banking brand
- Comprehensive product, service and physical and alternative distribution capabilities compared to niche players
- Highest client household penetration ratio in personal segments, and lead product market share in business markets among Canadian banks
- Among the strongest efficiency ratios of the Big 5 Canadian banks
- Acquisition integration capabilities in the U.S. market

Our strategy

Our vision is to grow profitable relationships with each one of our business and personal clients by creating a tailored client experience for our clients across North America, while reducing costs, and effectively managing risk and capital.

We plan to achieve our vision through the following strategic priorities:

- Ensure strong revenue growth in Canada by maximizing client retention, deepening client relationships, capturing intergenerational wealth transfer opportunities and building on our financial planning and advice capabilities
- Create a differentiated customer experience, providing a valued and superior level of service tailored to customer segment needs that builds customer loyalty and clearly differentiates us from the competition
- Accelerate U.S. revenue and earnings growth by expanding our footprint in the southeastern U.S. and building a scalable platform
- Reinforce cost management and risk mitigation through effective use of technology, strengthened low cost delivery capabilities, and rigorous management of credit, operational, regulatory and compliance risk
- Cross-platform leverage by increasing referrals and cost efficiencies across RBC in Canada and the U.S.

Outlook for 2003

Based on our expectation of rising interest rates in Canada in 2003, we anticipate that the spread compression on deposits will ease. This, combined with reasonable loan growth, should have positive implications for revenue growth in our Canadian business. In the U.S., we anticipate branch openings and the acquisitions of Eagle Bancshares in July 2002 and of Admiralty Bancorp, Inc. (expected to close in January 2003) to have a positive impact on revenues. We also expect that the realization of a full year of cost synergies from the Eagle Bancshares acquisition will contribute to net income growth at RBC Centura. Overall, we expect solid earnings growth for this segment based on our continued focus on cost containment and credit and operational risk management and the benefits of a recovering economy.

Financial performance

Net income was up 30% from last year while core net income was up $266 million or 21%. Earnings from the segment's U.S. acquisitions rose to $195 million in 2002 from $(36) million last year or $21 million excluding costs related to U.S. retail bank restructuring in 2001 ($73 million further excluding goodwill amortization expense in 2001). The higher U.S. earnings reflected the acquisition of Centura Banks on June 5, 2001, integration cost savings and revenue growth. Core net income excluding U.S. acquisitions grew 7% due to continued cost management initiatives. Core ROE increased to 19.1% in 2002 from 18.2% despite higher average common equity attributed to this segment due to U.S. acquisitions and additional business activity.

Revenues increased $431 million or 6% from 2001, reflecting the contribution of RBC Centura (including RBC Mortgage) and the acquisition of Eagle Bancshares, which was completed on July 22, 2002. Revenues from U.S. acquisitions increased $617 million in 2002, without which

the segment's revenues would have decreased 3% due to narrower net interest margins and lower lending volumes.

Non-interest expense increased $139 million or 3% from last year, while the efficiency ratio declined 160 basis points, as revenues grew faster than expenses. Core non-interest expense (which excludes $91 million of costs related to U.S. retail bank restructuring in 2001) increased $230 million or 5%. U.S. acquisitions contributed $330 million of the core expense growth. Excluding U.S. acquisitions, core expenses fell 3%, reflecting ongoing cost management.

The total provision for credit losses fell 14% from last year, largely in the commercial loan portfolio. Net impaired loans decreased by $92 million, reflecting improvements in both the Canadian consumer and Canadian commercial loan portfolios.

Results

($ millions, taxable equivalent basis, except percentage amounts)	% change	2002	2001
Net interest income	4%	**$ 5,576**	$ 5,349
Other income	11	**2,073**	1,869
Gross revenues	6	**7,649**	7,218
Provision for credit losses			
Allocated specific	(5)	**626**	662
General allocated and unallocated	n.m.	**—**	70
Total	(14)	**626**	732
Non-interest expense (1)	3	**4,528**	4,389
Net income before income taxes	19	**2,495**	2,097
Income taxes	4	**937**	900
Non-controlling interest	(20)	**8**	10
Taxable equivalent adjustment	217	**19**	6
Net income	30	**$ 1,531**	$ 1,181
U.S. net income	n.m.	**$ 195**	$ (36)
Net income as a % of total bank net income	600bp	**55%**	49%
ROE	220bp	**19.1%**	16.9%
Economic Profit	45%	**$ 599**	$ 412
Net interest margin	(18)bp	**3.56%**	3.74%
Efficiency ratio	(160)bp	**59.2%**	60.8%
Operating efficiency ratio (2)	(50)bp	**59.0%**	59.5%
Average assets	9%	**$156,500**	$143,100
Average loans and acceptances	6	**142,800**	134,900
Average deposits	10	**122,900**	111,400
Average common equity	16	**7,800**	6,700
Core results (3)			
Gross revenues	6	**7,649**	7,211
Non-interest expense	5	**4,528**	4,298
Net income	21	**1,531**	1,265
U.S. net income	829	**195**	21
ROE	90bp	**19.1%**	18.2%
Credit information			
Net impaired loans	n.m.	**$ (305)**	$ (213)
Net write-offs	3%	**744**	724
Net write-offs as a % of average loans and acceptances	(2)bp	**.52%**	.54%
Number of employees (full-time equivalent)	—	**35,014**	34,845

(1) Includes goodwill amortization expense of $54 million in 2001 (nil in 2002).

(2) Efficiency and operating efficiency ratios are defined on page 104.

(3) Excluding special items in 2001 detailed in Table 6 on page 27A. Only the lines affected by special items are shown here.

n.m. not meaningful

Strategy by division

Canada

Operating in Canada under the RBC Royal Bank brand, we serve individuals, small and medium-sized businesses, and commercial clients in all provinces and territories. We offer our clients extensive physical and alternative distribution choices. We continue to strengthen our channel distribution capabilities, including significant reinvestment in our branch network and staff, and in our electronic banking capabilities.

We offer a wide range of financial services and advice, as detailed in our business profile on page 28A, and products and expertise in specialized areas such as foreign exchange and venture capital financing. We also provide individual and business clients with a full choice of Visa credit card products, debit cards and other smart card applications. We provide merchants with credit and debit card acceptance services, point-of-sale capabilities and Internet-secure electronic transaction solutions through Moneris Solutions, a joint venture in which we participate equally with Bank of Montreal, managed through RBC Global Services.

Our goal is to grow profitable relationships with each one of our business and personal clients, using our expertise in customer relationship management, sales management and client segmentation. We will drive revenue growth by creating a tailored client experience, leveraging client life events and providing financial planning and advice to broaden client relationships using the full capabilities of RBC.

We will continue to reinforce our cost management focus by leveraging e-enabled technology and cross-platform economies of scale. We will continue to rigorously focus on the management of credit, operational and compliance risk, including fraud management initiatives and strengthened credit-scoring capabilities.

Financial highlights by division

Revenues from the domestic business decreased $196 million or 3% from 2001, primarily due to continued spread compression on core deposits and lower personal and business lending volumes. These decreases more than offset higher residential mortgage and deposit balances and wider net interest margin earned on mortgages and credit cards. Mortgage balances increased as the low interest rate environment encouraged home purchases. Deposit balances grew while lending volumes declined, reflecting consumer and business uncertainty regarding the economy and capital markets.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	(3)%	**$ 6,110**	$ 6,306
Average residential mortgages	5	**68,200**	64,800
Average personal loans	(4)	**23,600**	24,500
Average personal deposits	2	**74,400**	72,900
Average business loans and acceptances	(8)	**32,700**	35,600
Average business deposits	9	**30,500**	28,100
Average card balances	3	**6,200**	6,000
Card spending volumes	2	**26,700**	26,300
Number of:			
Employees (full-time equivalent)	1	**29,716**	29,554
Automated banking machines	(2)	**4,151**	4,236
Branches	(1)	**1,117**	1,125
Online clients	23	**2,311,915**	1,876,358

United States

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. RBC Centura also includes RBC Mortgage, a Chicago-based national retail mortgage originator, and RBC Builder Finance, a Houston-based financing division for home builders and developers. RBC Centura's footprint expanded in 2002 with the acquisition of Eagle Bancshares, which operated 14 branches in the Atlanta, Georgia metropolitan area. RBC Centura has also announced a definitive merger agreement with Admiralty Bancorp, which currently operates 10 branches in Florida, expected to close in January 2003.

Our U.S. priorities include:

- Expanding in the southeastern U.S. through targeted acquisitions and a build/buy branch expansion strategy
- Rapidly building a scalable platform to support growth
- Accelerating introduction of sales and marketing initiatives
- Growing national niche lines of business such as builder finance and residential mortgages
- Realizing synergies from functional integration and cross-selling opportunities across RBC's entire platform

Revenues increased $617 million due mainly to a full year of RBC Centura results in 2002 compared to 5 months in 2001, as well as the contribution of Eagle Bancshares since July 22, 2002. Growth in average balances also largely reflects the inclusion of a full year of RBC

Centura. Strong growth in mortgage originations and volumes at RBC Mortgage reflected high refinance activity resulting from the favourable interest rate environment.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	91%	**$ 1,296**	$ 679
Average residential mortgages	81	**2,900**	1,600
Average personal loans	154	**3,300**	1,300
Average personal deposits	121	**8,600**	3,900
Average business loans and acceptances	121	**8,600**	3,900
Average business deposits	93	**5,400**	2,800
Average card balances	—	**100**	100
Card spending volumes	100	**400**	200
Mortgage originations ($ billions)	50	**33.7**	22.5
Number of:			
Employees (full-time equivalent)	1	**4,181**	4,126
Automated banking machines	7	**275**	258
Branches (1)	1	**245**	242
Online clients	18	**89,434**	75,887

(1) Excludes RBC Mortgage and RBC Builder Finance sales offices of 252 in 2002 and 264 in 2001.

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.

Revenues increased $10 million or 4% from 2001, aided by the sale of property in the Cayman Islands, which accounted for approximately half of the increase.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	4%	**$ 243**	$ 233
Number of:			
Employees (full-time equivalent)	(4)	**1,117**	1,165
Automated banking machines	11	**60**	54
Branches	10	**43**	39

RBC Insurance

Business profile

Operating as RBC Insurance, we provide a wide range of creditor, life, health, travel, home, auto and reinsurance products and services to more than five million clients in Canada, the U.S. and internationally. 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.

Industry profile

The Canadian insurance industry generates almost $60 billion in premiums annually from more than 100 life insurance companies and more than 200 property and casualty insurers. Our U.S. business is focused in the life insurance sector, which is both competitive and fragmented and includes over 1,200 national and regional companies. The international reinsurance industry is dominated by several global players but also includes a number of niche companies.

Across all of our business lines, we are seeing a number of key trends, including consolidation, increased government regulation, shifting distribution opportunities, the convergence of insurance and investment products and increased globalization.

Our strengths

- A diverse set of products designed to meet a wide range of consumer needs
- Multiple distribution channels, which are supported by strong infrastructure and sales expertise
- A strong brand. As part of RBC Financial Group, we have access to a broad range of financial services, distribution channels and client base
- Market leadership in a number of Canadian insurance markets, including travel and individual life insurance

Our strategy

We are focused on growing our insurance organization by offering a wide range of products and services through multiple distribution channels in Canada, as well as in select U.S. and international markets. To accomplish this we will seek to:

- Ensure as many RBC clients as possible have an insurance relationship with RBC Insurance
- Target reinsurance activities that support and enhance the overall profitability of the insurance operations
- Continue to expand in the U.S. by utilizing existing scale and expanding the platform, entering new markets and focusing on cross-platform initiatives across RBC
- Build an integrated North American insurance platform by leveraging cross-border synergies where permitted, including the implementation of common administrative and technology systems

Outlook for 2003

Our expectation of reasonable economic growth in both Canada and the U.S. should have a favourable impact on the insurance business in 2003. Our outlook is for strong revenue growth across our operations, driven by expansion into new markets as discussed in our strategy, and the pending acquisition of the U.S. life insurance operation of Business Men's Assurance Company of America (BMA). The acquisition of BMA is subject to regulatory approvals and other customary closing conditions. We anticipate that cost reductions from the realization of cross-border synergies will also help to drive net income growth.

Financial performance

Net income was $117 million, down 12% from last year. Results in 2002 were adversely affected by a declining interest rate environment and weaker equity markets. RBC Liberty Insurance reported a loss of $18 million versus a loss of $5 million in 2001, (net income of $8 million excluding goodwill amortization) last year. The decline in RBC Liberty Insurance earnings was largely related to higher policy surrenders and lower earnings at its outsourcing divisions. Excluding RBC Liberty Insurance, core net income fell 1%.

Core ROE improved to 15.7% from 14.8% in 2001, reflecting lower average common equity, which reflected a revised methodology for attributing capital to our insurance operations.

Premiums & deposits were up 12% from last year due largely to the contribution of RBC Liberty Insurance, while revenues increased 6% reflecting growth in the reinsurance business. RBC Liberty Insurance reported 13 months of results in 2002 versus 11 months in 2001, as its reporting period was changed from September 30 to October 31 to be consistent with our fiscal year. Excluding the additional months of RBC Liberty Insurance, premiums & deposits grew 8% and revenues declined 1%.

Expenses grew $62 million or 17%, largely due to the two additional months of RBC Liberty Insurance and an increase in the number of employees, partly offset by the cessation of goodwill amortization this year. Excluding the additional months of RBC Liberty Insurance, expenses increased 7%.

Results

($ millions, except percentage amounts)	% change	2002	2001
Premiums & deposits	12%	**$ 2,023**	$ 1,812
Other income			
Earned premium	14	**1,767**	1,548
Fee revenue/Other	(16)	**109**	130
Less: Policy benefits	19	**1,253**	1,054
Less: Acquisition costs	(3)	**338**	350
	4	**285**	274
Net interest income	8	**223**	206
Gross revenues	6	**508**	480
Non-interest expense (1)	17	**437**	375
Net income before income taxes	(32)	**71**	105
Income taxes	n.m.	**(46)**	(28)
Net income	(12)%	**$ 117**	$ 133
U.S. net income	(250)	**$ (6)**	$ 4
Net income as a % of total bank net income	(200)bp	**4%**	6%
ROE	70bp	**15.7%**	15.0%
Economic Profit	(10)%	**$ 27**	$ 30
Average assets	6	**5,600**	5,300
Average common equity	(12)	**700**	800
Core results (2)			
Net income	(11)	**117**	131
ROE	90bp	**15.7%**	14.8%
Number of employees (full-time equivalent)	2%	**2,641**	2,583

(1) Includes goodwill amortization expense of $13 million in 2001 (nil in 2002).

(2) Excluding special items in 2001 detailed in Table 6 on page 27A. Only the lines affected by special items are shown here.

Strategy by division

Life

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

In Canada, life and health insurance products are distributed through a network of more than 7,000 independent brokers, over 550 proprietary insurance representatives and a direct sales unit. In the U.S., Greenville, South Carolina-based Liberty Life Insurance Company provides life and health insurance products through a proprietary sales force of over 600 agents and also offers select products through direct 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.

Financial highlights by division

Premiums & deposits for the life business increased 10% in 2002, partially due to 2 additional months of RBC Liberty Insurance as it reported 13 months of results in 2002 versus 11 months in 2001. Without these additional months, premiums & deposits would have been up 5%, reflecting the continued strength of both the Canadian and reinsurance businesses. Lower investment income due to the low interest rate environment, as well as higher policy surrenders at RBC Liberty Insurance, contributed to the 7% decline in revenues.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Premiums & deposits	10%	**$ 1,529**	$ 1,393
Gross revenues	(7)	**362**	388
Average assets	2	**4,400**	4,300
Number of:			
Life and health policies in force in Canada (thousands)	11	**2,930**	2,645
Life policies in force in the U.S. (thousands)	(11)	**2,325**	2,600
Assets under management in the U.S.	(2)	**367**	375
U.S. sales agents	(4)	**690**	718

Non-life

Our non-life business includes home, auto, travel and property 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 and face-to-face channels. Travel products, which are sold through travel agents, the Internet and bank channels in Canada, include trip cancellation insurance, out-of-country medical and baggage insurance.

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

Our goal is to grow our non-life business by continuing to build our domestic home and auto business, entering new travel insurance markets and effectively managing our property reinsurance portfolio.

Revenues from our non-life business were higher in 2002 due to stronger performance in our property reinsurance and travel businesses as last year's revenues were adversely affected by claims resulting from the World Trade Center tragedy.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Premiums & deposits	14%	**$ 413**	$ 363
Gross revenues	80	**45**	25
Average assets	—	**700**	700
Number of:			
Home and auto — personal lines policies in force (thousands)	37	**93**	68
Travel — coverages (thousands)	(7)	**2,339**	2,510

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, the administration of bank creditor insurance programs and a proprietary sales distribution network.

Our travel and emergency assistance services include co-ordinating the delivery of emergency health, evacuation and transportation services when clients have a travel emergency, while our structured reinsurance business provides solutions to help corporations better manage financial risk.

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.

The substantial growth in premiums & deposits was attributable to structured reinsurance premium increases, which offset slower growth at our outsourcing divisions in the U.S. The increase in revenues reflected the stronger performance in structured reinsurance and the reporting of two additional months of RBC Liberty Insurance. Our career sales force grew substantially in 2002, reflecting increased investment in our proprietary sales distribution network.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Premiums & deposits	45%	**$ 81**	$ 56
Gross revenues	51	**101**	67
Average assets	67	**500**	300
Number of:			
Career sales — agents	22	**554**	455
Assistance services — calls (thousands)	(3)	**681**	699
Policies under administration in the U.S. (thousands)	(6)	**4,100**	4,342

RBC Investments

Business profile

RBC Investments provides full-service and self-directed brokerage, financial planning, investment counselling, personal trust, private banking and investment management products and services primarily to private clients in Canada, the U.S. and internationally. Products and services are delivered through the RBC Royal Bank branch network across Canada, RBC Investments offices, RBC Dain Rauscher branches in the U.S., private banking offices and other locations worldwide. Services are also delivered via the Internet and telephone. In September 2002, we realigned parts of our Canadian distribution channels under a single management structure to enhance the client experience by offering seamless, comprehensive solutions.

Industry profile

Wealth management is a highly competitive business with numerous large and boutique firms serving the affluent and high net worth client. Many of these firms have recently developed strategies focused on attracting the high net worth market. Volatile markets and the rising costs of managing the risks inherent in the business are changing the approach and profitability of some of the players. Consolidation in the mutual fund industry has not significantly altered the competitive landscape as distribution channels continue to be expanded by all players. Self-directed brokerage businesses have come under increased pressure due to reduced transaction volumes in light of market conditions, and clients using non-revenue generating services such as research, quotes and online asset mix calculators.

Our strengths

- Relationship management capabilities from experienced people and technology applications
- Ability to deliver the choice of products and services clients need to meet their financial goals
- Multiple distribution channels for client convenience
- Ability to access entire RBC client base
- Solutions designed for specific investment strategies and client risk tolerance

Our strategy

Our goal is to be a leading provider of personalized, comprehensive investment solutions for private clients worldwide, aligning them with client needs and the markets where we serve them.

In Canada:

- Match distribution channel and type of service to client needs and preferences
- Seek lifelong and intergenerational relationships with clients by offering products and services for each stage of their wealth management needs

In the United States:

- Grow through broadening and deepening relationships with existing clients as well as through targeted acquisitions over time in order to generate greater market share and scale

Internationally:

- Provide specialized global services to clients located around the world
- Offer solutions and provide advice and choice in an increasingly transparent international business

Outlook for 2003

Based on our expectation that investor confidence and capital markets performance will begin improving only by the third quarter of 2003, we expect moderate revenue growth in 2003. Cost containment efforts should help to keep the rate of expense growth below that of revenue growth. Retention compensation costs relating to recent U.S. acquisitions are forecast to be approximately $40 million lower in 2003, further contributing to net income growth.

Financial performance

Net income was down 33% while core net income was up 44%. The growth in core net income was due to higher earnings from RBC Dain Rauscher, as well as the cessation of goodwill amortization this year (goodwill amortization was $107 million in 2001). RBC Dain Rauscher's net income was $3 million in 2002, compared to a loss of $73 million last year ($33 million loss excluding goodwill amortization). The improvement in RBC Dain Rauscher's net income occurred despite higher retention compensation costs and reflected the acquisition of Tucker Anthony Sutro on October 31, 2001 (since integrated into RBC Dain Rauscher) and strong performance from its fixed income division. Excluding RBC Dain Rauscher, core net income would have grown 9%, largely due to the cessation of goodwill amortization in 2002. ROE was largely unchanged from last year, excluding the gain on the sale of RT Capital Management.

Core ROE fell to 11.0% from 12.2%, due largely to an additional $1.2 billion of average common equity attributed to the segment in 2002. Of

the increase in average common equity, $700 million related to goodwill arising from the acquisition of Tucker Anthony Sutro and most of the remainder to revised capital attribution for operational risk pertaining to this business segment.

Revenues were up 12% from 2001, or 26% excluding special items in 2001. Revenue growth reflected the acquisition of Tucker Anthony Sutro and strong results from the fixed income division of RBC Dain Rauscher. Excluding RBC Dain Rauscher's revenue growth of $875 million, core revenues were down 6% due to weak client trading volumes in 2002.

Expenses increased 25% over a year ago, reflecting the acquisition of Tucker Anthony Sutro and higher retention compensation related to U.S. acquisitions, which increased to $107 million from $88 million in 2001, with $45 million attributable to Tucker Anthony Sutro. RBC Dain Rauscher contributed $774 million of the expense growth in 2002. Excluding RBC Dain Rauscher, expenses fell 9%, reflecting the cessation of goodwill amortization this year, higher expenses in 2001 from a $38 million writedown of goodwill relating to Connor Clark, and good expense management.

Results

($ millions, except percentage amounts)	% change	2002	2001
Net interest income	(4)%	**$ 371**	$ 385
Other income	14	**3,274**	2,861
Gross revenues	12	**3,645**	3,246
Provision for credit losses			
Allocated specific	(150)	**(1)**	2
Total	(150)	**(1)**	2
Non-interest expense (1)	25	**3,146**	2,507
Net income before income taxes	(32)	**500**	737
Income taxes	(30)	**157**	224
Net income	(33)%	**$ 343**	$ 513
U.S. net income	n.m.	**$ (2)**	$ (81)
Net income as a % of total bank net income	(900)bp	**12%**	21%
ROE	(1,620)bp	**11.0%**	27.2%
Economic Profit	(117)%	**$ (17)**	$ 101
Average common equity	67	**3,000**	1,800
Core results (2)			
Gross revenues	26	**3,645**	2,897
Net income	44	**343**	239
ROE	(120)bp	**11.0%**	12.2%
Number of employees (full-time equivalent)	14%	**12,001**	10,512

(1) Includes goodwill amortization expense of $107 million in 2001 (nil in 2002).

(2) Excluding special items in 2001 detailed in Table 6 on page 27A. Only the lines affected by special items are shown here.

n.m. not meaningful

Strategy by division

Canada

Financial Planning

The new financial planning platform is operated jointly with RBC Banking. This group serves branch-based clients typically with more than $50,000 in investable assets of which a portion must include mutual funds or managed products. Financial planning has 1,100 relationship financial planners and 550 commission-based investment and retirement planners who are also financial planners and licensed mutual fund salespeople.

Canadian & International Brokerage group

This group includes our private client division (full-service brokerage) and RBC Action Direct (self-directed brokerage) and serves both investors requiring advisor-based comprehensive financial solutions and self-managed investors. Services are provided by over 1,420 investment advisors, over 180 investment representatives, as well as via telephone and the Internet. This group also includes the International Advisory Group, which has both Canadian and internationally-based employees serving international clients. Our goal is to maintain our market position in Canada by continuing to build and enhance existing client relationships.

RBC Global Private Banking (Canada)

Our private counsel, personal trust and private banking groups serve high net worth clients across Canada, and offer a relationship management approach for the client in need of sophisticated solutions. This group works with RBC Global Private Banking (international) to ensure we can serve clients who have interests in Canada as well as around the world. In Canada, 60 investment counsellors, 80 trust officers and 200 private bankers are in locations across the country.

Global Asset Management

This unit includes RBC Global Investment Management and RBC Funds, Canada's second largest mutual fund company. We directly manage more than $40 billion of assets in mutual and pooled funds as well as other client assets. We provide proprietary and externally-managed investment management products and advisory 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 encompass a broad range of investment solutions including money market, fixed income, balanced and Canadian, U.S. and global equity funds, as well as alternative investments. In 2003, our goal is to continue the strategy, first implemented in 2001, to broaden the distribution channels for investment management services and mutual fund products. This strategy has contributed to a 12% increase in our share of the Canadian mutual fund market over the past two years.

United States

RBC Dain Rauscher

Minneapolis-based RBC Dain Rauscher comprises a full-service brokerage subsidiary and a fixed income business. RBC Dain Rauscher plans to grow through broadening and deepening relationships with existing clients by understanding their needs and the potential profitability of the client relationship. We also plan to grow by focusing on opportunities which generate greater market share and scale within our existing markets. The integration of Boston-based Tucker Anthony Sutro was completed in 2002 and made RBC Dain Rauscher the 9th-largest full-service securities firm in the U.S., with close to 2,000 financial consultants serving individual clients from coast to coast and a fixed income business with 280 investment bankers, sales representatives and traders serving institutional and retail clients nationwide.

International

RBC Global Private Banking

This internationally-focused unit provides private banking, trust and investment counselling solutions to high net worth clients in more than 100 countries. Our goal is to provide specialized global services to high net worth clients with assets of more than $1 million. In 2003, we intend to grow revenues by leveraging CRM capabilities within the group, by exploring potential European and North and South American acquisitions, and by building alliances in markets where we already have a presence. The addition of non-proprietary money management capabilities will expand our value proposition to clients.

Financial highlights by division

RBC Investments' revenues grew 12% from last year for the reasons mentioned on page 32A. The decline in revenues from the Canadian & International Brokerage group was due to lower transaction- and fee-based revenues, reflecting continued weakness in capital markets. Global Asset Management's revenues declined 57% as revenues in 2001 included a $313 million gain on the sale of RT Capital Management and 10 months of results from that business that did not recur in 2002.

Revenues

($ millions)	% change	2002	2001
Canadian & International Brokerage	(9)%	**$ 984**	$ 1,076
RBC Dain Rauscher (1)	106	**1,702**	827

RBC Global Private Banking (2)	5	**678**	643
Global Asset Management (3)	(57)	**286**	660
Other (4)	(112)	**(5)**	40
	12%	**$ 3,645**	$ 3,246

(1) 2002 revenues include Tucker Anthony Sutro acquired on October 31, 2001.
(2) Includes both Canadian and international businesses and Financial Planning.
(3) 2001 revenues included RT Capital Management until August 15, 2001 and a $313 million gain on the sale of RT Capital Management.
(4) 2001 revenues included a $36 million gain on the sale of Group Retirement Services. Excluding this gain, 2001 revenues were $4 million.

Despite difficult capital market conditions, our Canadian & International Brokerage group was able to grow its assets, with much of the growth coming from fee-generating assets. Higher AUA in RBC Global Private Banking were related to an increase in new business, the acquisition of the assets of Barclays Bank PLC's private banking operations in the Americas and a 5% increase in the value of the British pound against the Canadian dollar. These increases largely offset lower AUA at RBC Dain Rauscher, due to declines in market values, as well as an expected decrease related to broker attrition resulting from weak market conditions and the integration of Tucker Anthony Sutro into RBC Dain Rauscher.

Assets under administration

($ millions)	% change	2002	2001
Personal			
Canadian & International Brokerage	3%	**$111,340**	$107,760
RBC Dain Rauscher	(18)	**132,930**	161,740
RBC Global Private Banking	21	**82,390**	67,990
	(3)	**326,660**	337,490
Institutional			
RBC Global Private Banking	14	**69,730**	61,010
	(1)%	**$396,390**	$398,500

The decline in personal AUM largely reflected lower asset values due to weak capital market conditions. As part of the integration of Tucker Anthony Sutro into RBC Dain Rauscher, a non-core asset management business which was acquired as part of Tucker Anthony Sutro was divested, contributing to the decrease in personal AUM. Much of the increase in institutional AUM was related to the accumulation of new assets in RBC Global Private Banking and at RBC Dain Rauscher. Mutual fund asset levels remained relatively stable with lower market values offset by strong net sales driven by a successful RRSP campaign.

Assets under management

($ millions)	% change	2002	2001
Personal	(23)%	**$35,660**	$46,620
Institutional	9	**18,410**	16,940
Mutual funds	(1)	**34,230**	34,550
	(10)%	**$88,300**	$98,110

RBC Capital Markets

Business profile

RBC Capital Markets provides wholesale financial services to large corporate, government and institutional clients in North America and in specialized product and industry sectors globally. Headquartered in Toronto, RBC Capital Markets has key centres of expertise in Minneapolis, New York and London, and offices in 27 other cities.

Industry profile

The Canadian wholesale financial services market is mature and, as a result, many Canadian firms are seeking growth opportunities outside of their domestic market, primarily in the U.S. The U.S. capital markets are dominated by several large global investment banks whose principal focus is on the top tier of companies forming the S&P 500. However, we believe significant opportunities exist for specialized players targeting the lower end of the S&P 500. To succeed in the North American context requires the ability to provide clients with innovative, value-added solutions that reflect a keen understanding of both the company and industry sector. Increasingly, new business opportunities will accrue to those firms with a reputation for adhering to high ethical standards.

Our strengths

- Top-tier market shares in virtually all lines of business in Canada
- Established reputation as a premier Canadian investment dealer as evidenced by our market share leadership
- Superior origination and distribution capability as measured by our standings in underwriting league tables
- Expertise and market knowledge in a broad array of industries

Our strategy

Our goals are to be recognized as the leading corporate and investment bank in Canada based on external rankings and to build a successful integrated North American business, while continuing to expand our specialized global businesses.

Key strategies for RBC Capital Markets include the following:

- In Canada, to maintain our position as a leading full-service provider in all of our markets by continuing to leverage the breadth of our long-standing client relationships, the depth of our trading, research and sales capabilities, and the strength of our brand and reputation in the Canadian market
- In the U.S., to provide value-added solutions by offering clients a broad product portfolio delivered through specialized industry teams, with the goal of building an integrated North American franchise. We will leverage the depth of our research and advisory capabilities in targeted North American industry sectors, specifically energy, technology, communications, health care, consumer products, and mid-size financial institutions
- Continue to expand our global specialized businesses by providing clients with customized, value-added solutions in the areas of bonds, money markets, foreign exchange, structured finance and equity and credit derivatives

Outlook for 2003

Given our expectations for reasonable economic growth in both Canada and the U.S. and a moderate capital markets recovery in 2003, we are anticipating modest revenue growth in 2003. Our outlook is based on the expectation of a recovery in trading volumes, merger and acquisition activities and new issue and advisory mandates to more normalized levels. We intend to maintain our focus on strategic cost management and to keep the rate of expense growth below that of revenue growth. We also plan to continue to proactively manage the credit risk associated with our corporate loan portfolio.

Financial performance

Net income increased 24%, or 15% on a core basis, as expenses fell far more than did revenues. Core ROE was virtually unchanged from 2001, with higher net income offset by $700 million of additional common equity attributed to the segment compared to last year, reflecting a change in methodology for attributing capital relating to credit risk.

Revenues declined $111 million or 4% from last year, due largely to lower trading revenues in our platform resulting from continued weakness in capital markets and lower lending revenues due to targeted reductions in the corporate loan portfolio.

Non-interest expense fell $177 million or 10% due to a lower number of employees and reduced variable compensation costs. Retention compensation costs related to the acquisition of Dain Rauscher Wessels, fully integrated into RBC Capital Markets since early 2002, were also lower, falling to $51 million from $88 million in 2001.

The provision for credit losses increased by $58 million or 14% from 2001, due primarily to certain telecommunication, cable and energy accounts that were classified as impaired during the year. The increase in the provision for credit losses was partially offset by related credit derivative gains which were recorded in other income. Net impaired loans were down $22 million or 5% from last year, reflecting write-offs in the corporate loan portfolio.

The decline in income taxes was attributable to tax rate differentials in various jurisdictions, as well as higher income taxes in 2001 resulting

from a special $28 million income tax expense shown in Table 6 on page 27A.

Results

($ millions, taxable equivalent basis, except percentage amounts)	% change	2002	2001
Net interest income	29%	**$ 553**	$ 430
Other income	(10)	**2,112**	2,346
Gross revenues	(4)	**2,665**	2,776
Provision for credit losses			
Allocated specific	14	**465**	407
Total	14	**465**	407
Non-interest expense (1)	(10)	**1,627**	1,804
Net income before income taxes	1	**573**	565
Income taxes	(35)	**135**	208
Taxable equivalent adjustment	—	**21**	21
Net income	24%	**$ 417**	$ 336
U.S. net income	n.m.	**$ (40)**	$ (77)
Net income as a % of total bank net income	100 bp	**15%**	14%
ROE	70 bp	**10.0%**	9.3%
Economic Profit	n.m.	**$ (76)**	$ (56)
Average assets	14%	**178,200**	156,400
Average loans, acceptances and reverse repurchase agreements	3	**61,400**	59,600
Average deposits	12	**79,200**	70,500
Average common equity	21	**4,000**	3,300
Core results (2)			
Net income	15	**417**	364
ROE	(10)bp	**10.0%**	10.1%
Credit information			
Net impaired loans	(5)%	**$ 390**	$ 412
Net write-offs	120	**510**	232
Net write-offs as a % of average loans, acceptances and reverse repurchase agreements	44 bp	**.83%**	.39%
Number of employees (full-time equivalent)	(1)%	**2,938**	2,954

(1) Includes goodwill amortization expense of $43 million in 2001 (nil in 2002).
(2) Excluding special items in 2001 detailed in Table 6 on page 27A. Only the lines affected by special items are shown here.
n.m. not meaningful

Strategy by division

Capital Markets Services

This division was formed in November 2001, combining the equity research, sales and trading businesses with the corporate and investment banking businesses. We offer a full range of credit and corporate finance products, including debt and equity underwriting, mergers & acquisitions (M&A) advice and execution, and expertise in research and equity sales and trading activities.

In Canada, we will build on our key strengths — expert knowledge of the Canadian markets, breadth and longevity of client relationships, depth in trading, research and sales and a long-standing reputation as a top-ranked domestic investment bank — to continue to be a full-service provider to all industries.

On a North American basis, we will be industry-focused — specifically technology, telecommunication, heath care, energy, consumer products and mid-size financial institutions. By leveraging our research and advisory capabilities, we expect to differentiate ourselves on our ability to provide superior knowledge of investment opportunities and market-based solutions for our target clients.

Financial highlights by division

Revenues were up 3% from 2001. Factors contributing to this increase include strong performance in Canadian equity new issue and M&A business and credit derivative gains related to accounts that were classified as impaired during the year. These factors offset lower sales and trading revenues, weak performance in U.S. equity new issue and M&A business and a 9% decline in core lending revenues. Core lending revenues decreased due to tightened spreads and the targeted reduction in the corporate loan portfolio, which is also reflected in the 13% decline in average assets.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	3%	**$ 1,063**	$ 1,034
Average assets	(13)	**13,600**	15,700

Global Financial Products

This division was formed in November 2001 to address the continuing convergence of financial products available to clients. Its formation brought together the business activities involving the origination, syndication, securitization, trading and distribution of debt products globally. These products include loans, bonds and derivatives at both the investment grade and sub-investment grade levels. As well, Global Financial Products provides leveraged product asset management capabilities and is the centre of expertise for RBC Capital Markets' proprietary trading activities. The combination of these businesses provides the ability to maximize internal expertise and deliver a broad array of value-added ideas and solutions to clients.

We intend to continue to focus on identifying opportunities where we can build from our existing strengths to provide solutions-based approaches to structuring transactions for our clients.

Revenues were up 5% in 2002. Favourable interest rate trading environments during the year helped to fuel revenue and asset growth from our traditional bond and derivative businesses, as well as revenue growth from new initiatives developed in securitization, leveraged finance and asset management. Revenues from our proprietary trading activities were down slightly from 2001 levels. Overall, this business achieved strong performance despite difficult markets and business limitations resulting from the displacement of our New York operations after the events of September 11th.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	5%	**$ 884**	$ 839
Average assets	41	**70,700**	50,200

Global Treasury Services

Global Treasury Services combines our money markets and foreign exchange businesses and provides global clients with foreign exchange, commodities, derivatives and interest rate products, as well as currency risk management and advisory services. These products and services are delivered through our extensive global sales and trading network, operating from centres that include Toronto, London and New York. Recognized as a market leader in foreign exchange e-commerce solutions, we also deliver services through our Internet trading platform, FX Direct, and are a member of the multi-bank global trading platform, FXall. We will continue to invest in innovative electronic delivery channels that offer sophisticated and flexible products and services.

Revenues were down 18% from 2001, which was a record year. The foreign exchange businesses experienced increased volatility in foreign exchange rates and decreased volumes, while economic and interest rate uncertainty negatively affected the money markets businesses. However, the derivative-based businesses performed well and we continued to grow revenues through e-commerce channels.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	(18)%	**$ 510**	$ 619
Average assets	6	**76,000**	72,000

Global Credit

Global Credit provides centralized management of all credit exposure associated with our loan portfolio. While wholesale lending is fundamental to the attraction and expansion of high-margin client businesses, lending must be strategic in order to maximize the returns to shareholders. Our portfolio and transaction management specialists use sophisticated risk management and analytical tools designed to ensure that the pricing on loans is commensurate with the associated risk and reflects the value of all products and services a client has with RBC.

Our transaction specialists use appropriate structures to provide clients with value-added, as opposed to commoditized, credit solutions. We work closely with our distribution teams to further reduce the size of our corporate lending base, while continuing to enhance the quality of earnings from this source.

Global Credit's 45% decline in revenues was mainly driven by net negative mark-to-market adjustments on credit derivatives and other financial instruments and targeted reductions in our non-core lending portfolio, which is reflected in the 25% decline in average assets. These decreases offset revenue growth from our structured lending business and our successful efforts to transition towards higher-value loan transactions with greater liquidity.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	(45)%	**$ 112**	$ 203
Average assets	(25)	**10,100**	13,500

Alternative investments

Alternative Investments was formed in June 2002 with a mandate to expand our wholesale asset management capabilities, which today include operations in hedge funds and private equity. The alternative asset business provides non-traditional investment opportunities to high net worth individuals, corporations and institutional clients. These investment options include private equity and hedge funds, and can extend to other vehicles such as leveraged buyouts, Collateralized Debt Obligations (CDOs) and managed futures. We are uniquely positioned to leverage our existing infrastructure and our superior product knowledge across other businesses within RBC who have strong relationships with our target client base.

Revenues were up 19%, with strong results from our hedge fund business, which accounts for the majority of our revenues, and stable results from proprietary trading offsetting lower revenues from the Canadian equity derivatives business. Revenues from our merchant banking business were also lower due to lower capital gains and the writedowns of certain investments.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	19%	**$ 96**	$ 81
Average assets	56	**7,800**	5,000

RBC Global Services

Business profile

RBC Global Services offers specialized transaction processing services to business, commercial, corporate and institutional clients in domestic and select international markets. Key businesses include investment administration, correspondent banking, cash management, payments and trade finance. Our 50% interest in the Moneris Solutions merchant card processing joint venture is reported under RBC Global Services.

Industry profile

The industry is characterized by increasing consolidation as certain segments become more global. Monoline specialists and new market entrants compete against traditional financial institutions. Scale is increasingly important to support the significant investment in technology required to introduce new products and services, accommodate industry-driven infrastructure changes and enhance operational efficiencies.

Our strengths

- We have a leadership position in Canada in these businesses as measured by AUA and market share of number of client relationships
- We have strong client relationships as evidenced by our high rate of client retention and new business generated from existing clients
- We are recognized for quality of service as evidenced by our top rankings in third-party client surveys
- We continue to develop and deploy new technology and client service solutions
- We are able to leverage our market position by aligning the resources within RBC Global Services with the expertise of other RBC platforms to offer a superior integrated service to the market

Our strategy

Our goal is to maintain and enhance our leadership position in Canada while continuing to develop a competitive international presence. To meet our goal, we will:

- Build upon existing client relationships to develop new business in select domestic and international markets
- Grow the business through key alliances, acquisitions and partnerships and continue to leverage the Moneris Solutions joint venture
- Drive revenue growth by developing new products and selling higher-margin value-added services, such as securities lending and trade advisory
- Enhance our processing and systems platforms to deliver new capabilities, improve efficiencies and drive economies of scale
- Continue the shift to electronic payment products and services focusing on Web-based solutions.

Outlook for 2003

Although we expect interest rates to rise in the second half of 2003, they will likely remain low in historical terms, which will continue to have an unfavourable impact on our revenue growth in 2003. As our revenues earned on deposits and cash balances are highly dependent upon the interest rate environment, our net interest income growth may be adversely affected. At the same time, the expectation of a modest recovery in capital markets beginning in the second half of 2003 should have a favourable impact on revenues from foreign exchange and on fee revenues from higher AUA.

Financial performance

Net income declined 35% while core net income, excluding the gain on the formation of the Moneris Solutions joint venture in 2001, declined 8% from last year, partially reflecting an increase in the provision for credit losses.

ROE was 28.4% compared to core ROE of 34.3% in 2001. The decline in ROE reflects lower net income as well as a $100 million increase in average common equity attributed to this segment in 2002. The higher common equity reflects the 50% interest in the Moneris Solutions joint venture and higher capital attribution for operating risk.

Revenues were down 4% from last year, reflecting lower interest income due to the low interest rate environment, as well as lower foreign exchange revenues, which more than offset a 10% increase in fee income. Core revenues (which exclude an $89 million gain on the formation of the Moneris Solutions joint venture) were up 5%. Revenues were positively affected by the acquisition of Perpetual Fund Services (an Australian custody, investment administration and unit registry business) on July 31, 2001 and a change pertaining to the classification of services provided by us to Moneris Solutions, effective November 2001. Payments for services provided to Moneris Solutions are now being treated as revenues, whereas previously they were treated as cost recoveries. Excluding these factors, revenues were flat.

Expenses were $69 million or 12% higher in 2002 due to the inclusion of a full year of Perpetual Fund Services as well as continued investments in technology. Excluding the acquisition of Perpetual Fund Services and the change in the classification of services provided by us to Moneris Solutions discussed above, expenses increased by 5%.

The increases in both the provision for credit losses and net impaired loans were associated with Argentine loans classified as impaired during the year.

Results

($ millions, except percentage amounts)	% change	2002	2001
Net interest income	(7)%	**$ 137**	$ 147
Other income	(4)	**820**	851
Gross revenues	(4)	**957**	998
Provision for credit losses			
Allocated specific	n.m.	**10**	(2)
Total	n.m.	**10**	(2)
Non-interest expense (1)	12	**668**	599
Net income before income taxes	(30)	**279**	401
Income taxes	(22)	**108**	138
Net income	(35)%	**$ 171**	$ 263
U.S. net income	(41)	**$ 10**	$ 17
Net income as a % of total bank net income	(500)bp	**6%**	11%
ROE	(2,050)bp	**28.4%**	48.9%
Economic Profit	(19)%	**$ 98**	$ 121
Average common equity	20	**600**	500
Core results (2)			
Gross revenues	5	**957**	909
Net income	(8)	**171**	186
ROE	(590)bp	**28.4%**	34.3%
Credit information			
Net impaired loans	n.m.	**$ —**	$ (11)
Net write-offs	(114)%	**(1)**	7
Net write-offs as a % of average loans and acceptances	(40)bp	**(.05)%**	.35%
Number of employees (full-time equivalent)	1%	**2,571**	2,557

(1) Includes goodwill amortization expense of $8 million in 2001 (nil in 2002).
(2) Excluding special items in 2001 detailed in Table 6 on page 27A. Only the lines affected by special items are shown here.
n.m. not meaningful

Strategy by division

Institutional & Investor Services

Institutional & Investor Services is Canada's largest custodian as measured by AUA, and a leading provider of investment administration services to corporate and institutional investors worldwide. We operate from 13 locations throughout the world, with a global custody network spanning 80 markets.

We plan to continue to leverage our leadership position in the Canadian market to expand internationally, with a focus on serving fund managers, financial institutions and private banks.

We expect to achieve growth in our fee-based revenue streams by:

- Selling newly developed products and services to existing clients
- Expanding our client offerings in Europe and Asia-Pacific
- Further exploring alliance and acquisition opportunities

Financial highlights by division

Revenues grew $3 million or 1% in 2002, as the positive impact of the Perpetual Fund Services acquisition and higher fee income offset lower revenues from foreign exchange and interest income, due to the low interest rate environment. AUA increased by 3% from 2001 due to new business, but the effect of equity market declines largely offset the additions.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	1%	**$ 401**	$ 398
Assets under administration	3	**963,200**	936,700

Financial Institutions

A comprehensive range of correspondent banking services is 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.

Our goal is to leverage our leadership position in the Canadian dollar clearing market and our client relationships by:

- Identifying differentiated value-added solutions that address the unique needs of the different market segments
- Adding new revenue streams by introducing service offerings that integrate the new product developments of RBC Global Services with those of other business platforms

We will continue to monitor and actively manage our exposure to higher risk markets.

Revenues fell $15 million or 13% from last year, primarily due to a decrease in interest income associated with the low interest environment. In addition, certain fee revenues were transferred from RBC Global Services to RBC Capital Markets in 2002, contributing to the decline in revenues. The decrease in average assets reflected strategic reductions in the size of our Latin American loan portfolio, which now totals $146 million.

Results

($ millions, taxable equivalent basis)	% change	2002	2001
Gross revenues	(13)%	**$ 98**	$ 113
Average assets	(15)	**1,700**	2,000
Average deposits	—	**1,700**	1,700

Treasury Management & Trade

Treasury Management & Trade provides cash management, payment and trade services to business, commercial, corporate and public sector segments. Our trade team provides Canadian and foreign importers and exporters with a variety of trade products, services and counsel. Our cash management group provides a range of solutions to clients that allow for more effective cash flow and integration with client processing. Through Moneris Solutions we provide merchants with credit and debit card transaction processing services.

Our goal is to continue to be the leading provider in Canada by retaining profitable client relationships and growing market share in strategic markets by:

- Introducing a market segmentation approach that accommodates the diverse needs of business markets

- Expanding the functionality of our Web-based delivery channel for both cash management and trade services
- Introducing new trade products and services as well as expanding trade alliances to meet clients' international trade requirements while effectively managing risk
- Leveraging our cash management sales and service leadership position

Revenues decreased $29 million or 6% from 2001. Excluding the $89 million gain on the formation of the Moneris Solutions joint venture in 2001, revenues increased $60 million or 15%. This increase primarily reflected a change pertaining to the classification of services provided by us to Moneris Solutions, effective November 2001. Payment for services provided to Moneris Solutions are now being treated as revenues, whereas previously they were treated as cost recoveries. Excluding this factor, revenues increased 10%, reflecting growth in fee income.

Results

($ millions, taxable equivalent basis, volumes in thousands)	% change	2002	2001
Gross revenues	(6)%	**$ 458**	$ 487
Core gross revenues (1)	15	**458**	398
Average deposits	6	**6,350**	6,000
Payment volumes (2)	12	**7,440**	6,670
Payment errors (per 10,000 payments)	(40)	**.33**	.55

(1) Excluding special items in 2001 detailed in Table 6 on page 27A.

(2) Restated to include payment types not previously included in 2001.

Financial priority: Revenue growth and diversification

Highlights

- Revenues up 7%
- Operating(core) revenues up 10%, reflecting acquisitions
- Excluding recent U.S. acquisitions, operating revenues were unchanged
- Net interest income up 10%
- Net interest margin of 1.96%, down four basis points
- Other income up 4% and core other income up 10%
- Other income 54% of total revenues

TABLE 7 Operating revenues

($ millions, taxable equivalent basis)	2002	2001	2002 vs 2001 Increase (decrease)	
Net interest income	**$ 7,198**	$ 6,549	**$ 649**	**10%**
Other income	**8,562**	8,215	**347**	**4**
Total revenues (reported)	**15,760**	14,764	**996**	**7**
Less: Special items (1)	**—**	(445)	**(445)**	**n.m.**
Operating revenues	**15,760**	14,319	**1,441**	**10**
Less: Revenues of recent U.S. acquisitions (2)	**(3,190)**	(1,687)	**1,503**	**89**
Operating revenues, excluding recent U.S. acquisitions	**$12,570**	$12,632	**$ (62)**	**—%**

(1) Special items in 2001 are described in Table 6 on page 27A. There were no special items for 2002.

(2) Represents revenues of RBC Centura (now includes Eagle Bancshares, RBC Mortgage for the purposes of this discussion and analysis and what was previously SFNB), RBC Liberty Insurance and RBC Dain Rauscher (includes Tucker Anthony Sutro) and excludes Dain Rauscher Wessels, which was integrated into RBC Capital Markets in early 2002.

n.m. not meaningful.

Total revenues were up $1.0 billion or 7% from 2001. Operating, or core, revenues (which exclude $445 million of gains from special items recorded in 2001) were up $1.4 billion or 10% from a year ago.

As shown in the table above, revenues from recent U.S. acquisitions accounted for all of the growth in operating revenue. Excluding recent U.S. acquisitions, operating revenues were unchanged from a year ago. This compared to a decline in operating expenses of 5% (discussed in the Cost control section on page 42A).

Net interest income

Net interest income was up 10% from 2001 to $7.2 billion. The majority of the increase stemmed from recent U.S. acquisitions. If these acquisitions are excluded, net interest income would have been up 2% due to an increase in the amount of interest-earning assets, particularly residential mortgages, which more than offset a narrower spread on deposits.

As shown in Table 8 below, the net interest margin decreased by four basis points from last year to 1.96%, reflecting a narrower spread between the prime rate and core deposit funding costs resulting from a reduction in the average Canadian prime rate to 4.15% from 6.55% in 2001.

TABLE 8 Net interest income and margin

($ millions, except percentage amounts)	2002	2001	2000
Average assets	**$367,300**	$327,100	$281,900
Net interest income (1)	**7,198**	6,549	5,307
Net interest margin (2)	**1.96%**	2.00%	1.88%

(1) Taxable equivalent basis.

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

Outlook

We are targeting core revenue growth of 5 - 8% in fiscal 2003, based on our expectations that capital market activity will pick up somewhat, interest rates in Canada will rise and the Canadian and U.S. economies will grow somewhat faster than in 2002.

TABLE 9 Net interest income on average assets and liabilities

($ millions, taxable equivalent basis, except percentage amounts)	Average balances (1)			Interest (2)			Average rate		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Assets									
Deposits with banks									
Canada	**$ 367**	$ 449	$ 612	**$ 7**	$ 18	$ 22	**1.91%**	4.01%	3.59%
International	**15,382**	16,154	13,888	**476**	813	802	**3.09**	5.03	5.77
	15,749	16,603	14,500	**483**	831	824	**3.07**	5.01	5.68
Securities									
Trading account	**65,422**	51,429	38,450	**1,945**	2,143	1,519	**2.97**	4.17	3.95
Investment account	**25,171**	21,154	20,142	**1,127**	1,125	1,129	**4.48**	5.32	5.61
Loan substitute	**407**	463	495	**43**	45	49	**10.57**	9.72	9.90
	91,000	73,046	59,087	**3,115**	3,313	2,697	**3.42**	4.54	4.56
Assets purchased under reverse repurchase agreements	**35,463**	29,591	21,729	**651**	1,163	1,078	**1.84**	3.93	4.96
Loans (3)									
Canada									
Residential mortgage	**65,901**	62,448	59,860	**3,903**	4,087	3,891	**5.92**	6.54	6.50
Personal	**26,631**	28,089	26,949	**1,734**	2,325	2,290	**6.51**	8.28	8.50
Credit card	**4,354**	4,586	3,559	**519**	556	405	**11.92**	12.12	11.38
Business and government	**28,650**	32,347	32,927	**1,291**	1,281	1,506	**4.51**	3.96	4.57
	125,536	127,470	123,295	**7,447**	8,249	8,092	**5.93**	6.47	6.56
International	**41,132**	32,836	24,495	**3,016**	3,783	3,446	**7.33**	11.52	14.07
	166,668	160,306	147,790	**10,463**	12,032	11,538	**6.28**	7.51	7.81
Total interest-earning assets	**308,880**	279,546	243,106	**14,712**	17,339	16,137	**4.76**	6.20	6.64
Non-interest-bearing deposits with banks	**1,753**	1,188	930						
Customers' liability under acceptances	**8,515**	9,890	10,281						
Other assets	**48,152**	36,476	27,583						
Total assets	**$367,300**	$327,100	$281,900	**$14,712**	$17,339	$16,137	**4.01%**	5.30%	5.72%
Liabilities and shareholders' equity Deposits (4)									
Canada	**$111,880**	$110,228	$107,533	**$ 2,964**	$ 4,712	$ 5,060	**2.65%**	4.27%	4.71%
International	**108,620**	89,629	70,575	**2,745**	4,000	3,997	**2.53**	4.46	5.66
	220,500	199,857	178,108	**5,709**	8,712	9,057	**2.59**	4.36	5.09
Obligations related to securities sold short	**19,912**	16,509	14,195	**797**	654	656	**4.00**	3.96	4.62
Obligations related to assets sold under repurchase agreements	**19,630**	19,892	11,873	**414**	894	653	**2.11**	4.49	5.50
Subordinated debentures	**6,804**	6,805	5,129	**406**	410	344	**5.97**	6.02	6.71
Other interest-bearing liabilities	**5,546**	3,042	3,042	**188**	120	120	**3.39**	3.94	3.94
Total interest-bearing liabilities	**272,392**	246,105	212,347	**7,514**	10,790	10,830	**2.76**	4.38	5.10
Non-interest-bearing deposits	**19,897**	18,568	15,654						
Acceptances	**8,515**	9,890	10,281						
Other liabilities	**47,974**	36,621	30,829						
	348,778	311,184	269,111	**7,514**	10,790	10,830	**2.15**	3.47	4.02
Shareholders' equity									
Preferred	**1,713**	2,073	1,975						
Common	**16,809**	13,843	10,814						
Total liabilities and shareholders' equity	**$367,300**	$327,100	$281,900	**$ 7,514**	$10,790	$10,830	**2.05%**	3.30%	3.84%

Net interest income as a % of total average assets	**$367,300**	$327,100	$281,900	**$ 7,198**	$ 6,549	$ 5,307	**1.96%**	2.00%	1.88%
Net interest income as a % of total average interest-earning assets									
Canada	**$196,321**	$182,904	$176,865	**$ 6,539**	$ 5,343	$ 4,796	**3.33%**	2.92%	2.71%
International	**112,559**	96,642	66,241	**659**	1,206	511	**.59**	1.25	.77
Total	**$308,880**	$279,546	$243,106	**$ 7,198**	$ 6,549	$ 5,307	**2.33%**	2.34%	2.18%

(1) Calculated on a daily basis.

(2) Interest income includes loan fees of $321 million (2001 — $328 million; 2000 — $274 million). The taxable equivalent adjustment is based on the Canadian tax rate of 38.5% (2001 — 41.5%; 2000 — 42.8%) and U.S. federal tax rate of 39.5%.

(3) Average balances include impaired loans and are net of the allowance for credit losses.

(4) Deposits include savings deposits with average balances of $39 billion (2001 — $38 billion; 2000 — $34 billion), interest expense of $.3 billion (2001 — $.6 billion; 2000 — $.7 billion) and average rates of .69% (2001 — 1.58%; 2000 — 2.06%). Deposits also include time deposits with average balances of $47 billion (2001 — $44 billion; 2000 — $38 billion), interest expense of $1.3 billion (2001 — $2.0 billion; 2000 — $2.0 billion) and average rates of 2.86% (2001 — 4.55%; 2000 — 5.26%).

TABLE 10 Change in net interest income

($ millions, taxable equivalent basis)	2002 vs 2001 Increase (decrease) due to changes in average volume (1)	2002 vs 2001 Increase (decrease) due to changes in average rate (1)	2002 vs 2001 Net change	2001 vs 2000 Increase (decrease) due to changes in average volume (1)	2001 vs 2000 Increase (decrease) due to changes in average rate (1)	2001 vs 2000 Net change
Assets						
Deposits with banks						
Canada	**$ (3)**	**$ (8)**	**$ (11)**	$ (6)	$ 2	$ (4)
International	**(37)**	**(300)**	**(337)**	121	(110)	11
Securities						
Trading account	**502**	**(700)**	**(198)**	537	87	624
Investment account	**195**	**(193)**	**2**	55	(59)	(4)
Loan substitute	**(6)**	**4**	**(2)**	(3)	(1)	(4)
Assets purchased under reverse repurchase agreements	**197**	**(709)**	**(512)**	339	(254)	85
Loans						
Canada						
Residential mortgage	**218**	**(402)**	**(184)**	169	27	196
Personal	**(116)**	**(475)**	**(591)**	95	(60)	35
Credit card	**(28)**	**(9)**	**(37)**	123	28	151
Business and government	**(156)**	**166**	**10**	(26)	(199)	(225)
International	**813**	**(1,580)**	**(767)**	1,035	(698)	337
Total interest income	**$ 1,579**	**$ (4,206)**	**$ (2,627)**	$ 2,439	$ (1,237)	$ 1,202
Liabilities						
Deposits						
Canada	**$ 70**	**$ (1,818)**	**$ (1,748)**	$ 124	$ (472)	$ (348)
International	**727**	**(1,982)**	**(1,255)**	951	(948)	3
Obligations related to securities sold short	**136**	**7**	**143**	99	(101)	(2)
Obligations related to assets sold under repurchase agreements	**(12)**	**(468)**	**(480)**	377	(136)	241
Subordinated debentures	**—**	**(4)**	**(4)**	104	(38)	66
Other interest-bearing liabilities	**87**	**(19)**	**68**	—	—	—
Total interest expense	**1,008**	**(4,284)**	**(3,276)**	1,655	(1,695)	(40)
Net interest income	**$ 571**	**$ 78**	**$ 649**	$ 784	$ 458	$ 1,242

(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.

Other income

As shown in Table 11 on page 41A, other income was up $347 million, or 4%, from 2001, while core other income, which excludes special items shown in Table 6 on page 27A, was up $792 million or 10%, both reflecting recent U.S. acquisitions. Core other income was up 11% in RBC Banking, 4% in RBC Insurance and 30% in RBC Investments, largely reflecting acquisitions. Core other income was up 8% in RBC Global Services but was down 10% in RBC Capital Markets.

Excluding the impact of recent U.S. acquisitions, core other income was down $183 million or 3%.

Partially driven by recent U.S. acquisitions, capital market fees (consisting of fees from full-service brokerage, discount brokerage and the institutional business) were up 23%, deposit and payment service charges were up 17% and investment management and custodial fees were up 8%. Mortgage banking revenues (which relate to mortgages originated in the U.S.) rose 8%, mutual fund revenues were up 4% and securitization revenues were up 41%, reflecting $3.7 billion of residential mortgage securitizations during the year. Card service revenues were up 8%. Despite contributions from recent U.S. acquisitions, trading revenues were down 3%. Insurance revenues were up 1% while credit fees declined 6%. Other — other income was up $169 million, or 53%, largely the result of a $77 million increase in fee revenue at RBC Dain Rauscher for the provision of back office services to other brokerage firms and a $19 million increase in fee revenue at RBC Liberty Insurance for the provision of back office services to other insurance companies.

Excluding the effect of recent U.S. acquisitions, deposit and payment service charges increased by $82 million, securitization revenues increased by $51 million, insurance revenues increased by $27 million, mutual fund revenues increased by $8 million, credit fees declined by $17 million, capital market fees declined by $23 million, investment management and custodial fees declined by $77 million and trading revenues declined by $302 million.

Other income accounted for 54% of total revenues, unchanged from 2001.

TABLE 11 Other income

($ millions, except percentage amounts)	2002	2001	2000	2002 vs 2001 Increase (decrease)	
Capital market fees	**$ 1,866**	$ 1,523	$ 1,538	**$ 343**	**23%**
Trading revenues	**1,766**	1,820	1,540	**(54)**	**(3)**
Investment management and custodial fees	**1,179**	1,096	860	**83**	**8**
Deposit and payment service charges	**1,041**	887	756	**154**	**17**
Mutual fund revenues	**723**	692	624	**31**	**4**
Card service revenues	**496**	458	420	**38**	**8**
Foreign exchange revenues, other than trading	**279**	312	299	**(33)**	**(11)**
Credit fees	**223**	237	212	**(14)**	**(6)**
Mortgage banking revenues	**222**	206	—	**16**	**8**
Insurance revenues	**204**	201	191	**3**	**1**
Securitization revenues	**174**	123	115	**51**	**41**
Gain (loss) on disposal of premises and equipment	**15**	22	(16)	**(7)**	**(32)**
Loss on sale of securities	**(116)**	(128)	(11)	**12**	**9**
Other	**490**	321	204	**169**	**53**
Total core	**8,562**	7,770	6,732	**792**	**10**
Special items (1)	**—**	445	—	**(445)**	**n.m.**
Total	**$ 8,562**	$ 8,215	$ 6,732	**$ 347**	**4%**

(1) Special items in 2001 are described in Table 6 on page 27A. There were no special items for 2000 and 2002.

n.m. not meaningful

TABLE 12 **Trading revenues**

($ millions)	2002	2001	2000
Net interest income (1)	**$ 127**	$ (68)	$ (365)
Other income (2)	**1,766**	1,820	1,540
Total	**$ 1,893**	$ 1,752	$ 1,175
By product			
Equity	**$ 753**	$ 684	$ 495
Fixed income and money markets (3)	**876**	726	378
Foreign exchange contracts (4)	**263**	340	301
Commodity and precious metals	**1**	2	1
Total	**$ 1,893**	$ 1,752	$ 1,175

(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.

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

Trading revenues

Trading revenues include gains and losses on securities and derivatives that arise from market-making, sales and principal trading activities. These securities and derivative positions are marked-to-market on a daily basis. A description of trading revenues included in net interest income and other income is provided in footnotes (1) and (2) in Table 12 above.

As shown in Table 12, total trading revenues were up $141 million or 8% in 2002. This was partially due to the acquisition of Tucker Anthony Sutro on October 31, 2001. Proprietary trading activities are strictly managed in accordance with VAR and trading limits and we continue to conduct the majority of client-related trading in the major G7 markets and currencies.

Fixed income and money market trading revenues increased by $150 million, or 21%, largely from increases in fixed income trading volumes due to the favourable interest rate environment provided by successive central bank rate cuts and increases in derivative trading activities. Equity trading revenues increased by $69 million, or 10%, primarily due to the inclusion of revenues from Tucker Anthony Sutro. Foreign exchange contract trading revenues declined by $77 million, or 23%, in part due to lower trading volumes caused by increased volatility in the foreign exchange markets.

Financial priority: Cost control

Highlights

- Non-interest expense up 7% from 2001 and core non-interest expense up 8%, reflecting recent U.S. acquisitions
- Operating non-interest expense excluding recent U.S. acquisitions down 5%, reflecting continued cost control efforts

As shown in the table below, non-interest expense was up $665 million or 7% and core non-interest expense (i.e., excluding special items shown in Table 6 on page 27A) was up $756 million or 8% from 2001.

Operating non-interest expense (which excludes the special items mentioned in Table 6 on page 27A, the costs of SARs and retention compensation associated with acquisitions) was up $753 million or 8% in 2002.

Non-interest expense of recent U.S. acquisitions was $2.7 billion, up $1.1 billion in 2002. The large increase is primarily due to the inclusion of a full year of expenses for RBC Centura, which was acquired on June 5, 2001, and expenses relating to the acquisition of Tucker Anthony Sutro, which was acquired on October 31, 2001. Excluding recent U.S. acquisitions, operating non-interest expense was down $370 million or 5% from 2001. Further excluding goodwill amortization expense not associated with recent U.S. acquisitions, operating non-interest expense was down $227 million, or 3%, in 2002.

From a segment perspective, by excluding expenses of recent U.S. acquisitions, operating expenses for RBC Investments would have been down $135 million or 9%, for RBC Banking down $109 million or 3% and for RBC Insurance up $24 million or 13%. The decline in RBC Banking's expenses reflects ongoing success with its cost control initiatives initially implemented in 1999, while the reduction in RBC Investments largely reflects lower variable compensation in the weaker capital markets environment and cost control efforts. The increase in RBC Insurance expenses partially reflects the inclusion of an additional two months of expenses at RBC Liberty Insurance and higher staff costs.

Operating expenses for RBC Capital Markets were down $140 million or 8%, whereas operating expenses at RBC Global Services were up $66 million or 11%. The reductions at RBC Capital markets, similar to the reductions at RBC Investments, were the result of lower variable compensation and continuing cost control. The increase in RBC Global Services costs was affected by a change that became effective November 2001, pertaining to the classification of services provided by us to Moneris Solutions, a card processing joint venture in which we have a 50% interest. Payments for services provided to Moneris Solutions are now being treated as revenues, whereas previously they were treated as cost recoveries. Also, expenses were impacted by the July 2001 acquisition of Perpetual Fund Services. Excluding this acquisition, and the change in classification of services provided to Moneris Solutions, operating expenses at RBC Global Services increased by 5%.

Human resources costs increased by $614 million or 11% in 2002, largely the result of a $476 million or 17% increase in salaries expense and a $96 million or 14% increase in benefits expense. The increase in salaries expense is primarily due to the acquisitions of RBC Centura and Tucker Anthony Sutro. Pension benefit expense increased by $129 million this year primarily due to a decrease in the fair value of plan assets due to weak equity markets, settlement costs on pension-related matters with Royal Trust pension plan members and increases in the interest cost on the benefit obligation. Furthermore, our defined contribution pension expenses were higher due to changes to our U.S. plan design and the launch of our Canadian defined contribution plan.

Other postretirement benefits expense decreased by $39 million this year primarily as a result of an$87 million charge that was taken in 2001 following the review of certain pension and other related future benefit plans. No similar charge was taken this year.

Retention compensation costs declined by $18 million to $158 million despite the addition of $45 million of retention compensation costs pertaining to Tucker Anthony Sutro. We expect total retention compensation costs to fall to approximately $87 million in 2003 and $53 million in 2004. SAR expenses rose slightly during the year. SARs are discussed in Note 16 on pages 88A and 89A, and their costs are determined based upon the change in our share price and the vesting, which occurs over time.

Communications costs increased by $115 million or 17%, equipment costs were up $91 million or 12% and occupancy costs increased by $72 million or 10%. These increases largely relate to the inclusion of a full year of expenses for RBC Centura Bank, which was acquired on June 5, 2001 and Tucker Anthony Sutro, which was acquired on October 31, 2001.

Excluding expenses from recent U.S. acquisitions, equipment costs would have been up $61 million or 10%, human resource costs down $139 million or 3%, amortization of goodwill and other intangibles down $140 million or 86%, other costs down $108 million or 11%, occupancy costs down $24 million or 4%, professional fees down $24 million or 8% and communications costs would have been up $4 million or 1%.

TABLE 13 Operating non-interest expense

($ millions)	2002	2001	2002 vs 2001 Increase (decrease)	
Non-interest expense	**$10,420**	$ 9,755	**$ 665**	**7%**
Less: Special items (1)	**—**	(91)	**(91)**	**n.m.**
Core non-interest expense	**10,420**	9,664	**756**	**8**
Less: Costs of SARs	**(44)**	(23)	**21**	**91**
RBC Dain Rauscher retention compensation (2)	**(158)**	(176)	**(18)**	**(10)**
Operating expenses	**10,218**	9,465	**753**	**8**
Less: Non-interest expense of recent U.S. acquisitions (3)	**(2,732)**	(1,609)	**1,123**	**70**

Operating expenses, excluding recent U.S. acquisitions	**7,486**	7,856	**(370)**	**(5)**
Less: Amortization of goodwill not associated with recent U.S. acquisitions (3)	**—**	(143)	**(143)**	**n.m.**
Operating expenses, excluding recent U.S. acquisitions and goodwill amortization	**7,486**	7,713	**(227)**	**(3)%**

(1) Special items in 2001 are described in Table 6 on page 27A. There were no special items in 2002.

(2) Includes Dain Rauscher Wessels for both periods and Tucker Anthony Sutro in 2002 only.

(3) Represents non-interest expense of RBC Centura Banks (now includes Eagle Bancshares, RBC Mortgage for the purposes of this discussion and analysis and what was previously SFNB), RBC Liberty Insurance and RBC Dain Rauscher (includes Tucker Anthony Sutro) including goodwill amortization expense of $105 million in 2001 (nil in 2002), but excluding retention compensation costs and Dain Rauscher Wessels, which was integrated into RBC Capital Markets in early 2002.

n.m. not meaningful.

Outlook

In 2003, we expect to grow operating expenses at a lower rate than operating revenues.

TABLE 14 Non-interest expense

($ millions, except percentage amounts)	2002	2001	2000	2002 vs 2001 Increase (decrease)	
Human resources					
Salaries	**$ 3,224**	$ 2,748	$ 2,319	**$ 476**	**17%**
Variable compensation	**2,095**	2,056	1,839	**39**	**2**
Acquisition related retention compensation	**158**	176	—	**(18)**	**(10)**
Benefits	**794**	698	441	**96**	**14**
SARs	**44**	23	52	**21**	**91**
	6,315	5,701	4,651	**614**	**11**
Occupancy					
Net premises rent	**595**	561	384	**34**	**6**
Premises repairs and maintenance	**70**	55	68	**15**	**27**
Depreciation	**103**	91	81	**12**	**13**
Property taxes	**11**	6	15	**5**	**83**
Energy	**17**	11	22	**6**	**55**
	796	724	570	**72**	**10**
Equipment					
Office and computer rental and maintenance	**516**	431	376	**85**	**20**
Depreciation	**304**	298	289	**6**	**2**
	820	729	665	**91**	**12**
Communications					
Telecommunication	**361**	290	225	**71**	**24**
Marketing and public relations	**211**	180	173	**31**	**17**
Postage and courier	**121**	108	170	**13**	**12**
Stationery and printing	**108**	108	127	**—**	**—**
	801	686	695	**115**	**17**
Professional fees	**419**	391	267	**28**	**7**
Amortization of goodwill	**—**	248	76	**(248)**	**n.m.**
Amortization of other intangibles	**72**	36	11	**36**	**100**
Other					
Business and capital taxes	**129**	171	134	**(42)**	**(25)**
Travel and relocation	**144**	121	85	**23**	**19**
Employee training	**46**	43	38	**3**	**7**
Donations	**41**	35	26	**6**	**17**
Other	**837**	779	363	**58**	**7**
	1,197	1,149	646	**48**	**4**
Total core	**10,420**	9,664	7,581	**756**	**8**
Special items (1)	**—**	91	—	**(91)**	**n.m.**
Total	**$10,420**	$ 9,755	$ 7,581	**$ 665**	**7%**

(1) Special items in 2001 are described in Table 6 on page 27A. There were no special items for 2000 and 2002.

n.m. not meaningful

Continuing our focus on cost control

The cost control initiatives undertaken in 2002 and in prior years are continuing to yield favourable results as reflected in the 5% decline in operating expenses, excluding recent U.S. acquisitions, shown in Table 13.

RBC Banking surpassed its stated objective of no non-interest expense growth in 2002, reducing non-interest expense by $100 million or 3%, excluding recent U.S. acquisitions. Its success is due to favourable results from a number of initiatives, including the following.

Increasing focus on fraud prevention. This led to over $50 million of savings realized this year.

Eliminating duplication and other process inefficiencies. As the result of integrating the credit card business into RBC Royal Bank's product and sales structure, over $10 million in cost savings were realized during 2002.

Integration of certain functions of SFNB, RBC Builder Finance and RBC Mortgage into RBC Centura. The successful integration of certain functions resulted in the realization of 100% of the three-year cost savings target of US$70 million, nearly two years ahead of schedule.

Integration of certain functions of RBC Centura into RBC Royal Bank. A portion of RBC Centura call centre services has been reallocated to the RBC Royal Bank call centres in Canada, whereby over half of RBC Centura inbound calls are now handled by call centres in Canada. RBC Centura is also expecting to realize over $7 million of cost savings in 2003 from the integration of certain operations of Eagle Bancshares.

Moving into 2003, RBC Banking is developing a common business framework enabled by e-technologies. We believe that this streamlined model will drive transformational cost reductions by providing standardized and flexible solutions across segments, channels and products. This initiative is expected to generate cost savings commencing in 2004.

During 2002, RBC Insurance realized cost savings by insourcing the provision of technology and infrastructure support to the RBC Systems & Technology group and by outsourcing its payroll function to an external payroll service provider. Also, RBC Liberty Insurance completed the migration and consolidation of the business insurance software and out-sourcing assets acquired from Genelco, resulting in cost eliminations. RBC Liberty Insurance is also in the process of migrating to the desktop and server operating environments used by the rest of our enterprise. These changes will result in lower costs and will leverage best practices.

RBC Investments' cost-cutting program, initiated in 2001 to offset the effects of market weakness, will continue into 2003. This segment continues to seek ways to permanently reduce non-interest expense. For example, by working with the Institutional & Investor Services unit of RBC Global Services, RBC Global Private Banking was able to realize cost savings through the sourcing of its fund management processing.

RBC Dain Rauscher achieved cost savings from the continued integration of Tucker Anthony Sutro. Cost savings are being realized through a number of initiatives, including reducing overlapping positions and leveraging scale opportunities that already exist in RBC Dain Rauscher's platform. RBC Dain Rauscher also achieved cost savings through the rationalization of parts of its business in response to poor market conditions. To date, cost savings realized from these initiatives have exceeded US$30 million. Cost savings pertaining to the completion of the integration of Tucker Anthony Sutro into RBC Dain Rauscher are expected to be another US$30 million in 2003.

RBC Capital Markets maintained a focused cost control effort in 2002 in response to the continued weak market conditions. Expense reductions were achieved through the execution of a number of initiatives including continued integration of Capital Market Services businesses in Canada and the U.S., targeted reductions in costs associated with the management of our loan portfolio, technology support and technology capital expenditures. In 2003, RBC Capital Markets will continue its focus on cost control.

RBC Global Services is a scale business with relatively high fixed costs. To achieve cost savings, this segment is focusing on improving operational efficiency by increasing revenue to achieve economies of scale and through continued improvements in its technology infrastructure. Revenue increases will be achieved through organic revenue growth and targeted acquisitions. Acquisitions will provide opportunities for cost savings through integration.

In addition to each platform undertaking its own cost containment initiatives, we have an E^2 (efficiency and effectiveness) effort underway for RBC Financial Group. The primary thrust of the E^2 initiative is to eliminate duplication between platforms and to identify centres of expertise that can be leveraged to enhance operational efficiency and revenue growth. To date, this initiative has identified over 55 projects that could result in cost savings and additional revenue.

TABLE 15 Taxes

($ millions, except percentage amounts)	2002	2001	2000
Income taxes			
Consolidated statement of income	**$ 1,365**	$ 1,340	$ 1,445
Taxable equivalent adjustment	**40**	32	28
	1,405	1,372	1,473
Other taxes			
Goods and services and sales taxes	**224**	221	208
Payroll taxes	**245**	237	188
Provincial capital taxes	**107**	146	108
Property taxes (1)	**11**	6	16
Business taxes	**22**	25	26
Insurance premium taxes	**22**	21	11
	631	656	557
Total	**$ 2,036**	$ 2,028	$ 2,030
Effective income tax rate (2)	**32.2%**	34.7%	38.6%
Effective total tax rate (3)	**41.5%**	44.6%	46.9%

(1) Includes amounts netted against other income 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 15 above were $2,036 million in 2002, comprising income taxes of $1,405 million and other taxes of $631 million. Income taxes increased by $33 million from 2001, largely due to higher net income before tax. Other taxes declined by $25 million largely as a result of a decrease in the amount of provincial capital taxes paid.

As shown above, the effective income tax rate decreased from 34.7% in 2001 to 32.2% in 2002, reflecting a reduction in federal and provincial tax rates in Canada.

In addition to the income and other taxes reported in the consolidated statement of income, the bank recorded income tax expense of $125 million in 2002 ($644 million income tax benefit in 2001) in shareholders' equity as shown in Note 14 on page 86A.

Financial priority: Strong credit quality

Highlights

- Business and government loans and acceptances decreased from 35% of total loans, acceptances and reverse repurchase agreements in 2001 to 32%
- Gross impaired loans down 7%
- Net impaired loans to total loans, acceptances and reverse repurchase agreements down slightly from .08% to .04%
- Provision for credit losses stable at $1.1 billion
- Specific provision ratio of .51%, down slightly from .53%
- Net write-offs ratio of .60%, up from .47%
- Allowance for credit losses down slightly from $2.4 billion to $2.3 billion

Loan portfolio

During 2002, the loan portfolio performed well in a very challenging environment, reflecting changes we have made in credit practices over the last two years. In 2002, we continued our strategy of moving towards a lower-risk portfolio mix, which includes more residential mortgage loans and less corporate loans, which are riskier and more capital intensive. As shown in the charts below, business and government loans and acceptances decreased to 32% of total loans, acceptances and reverse repurchase agreements in 2002 from 43% in 1998. This compares to a ratio of 35% in 2001.

We buy credit protection to offset losses that may result from the potential credit deterioration of particular counterparties and to manage absolute exposure. As at October 31, 2002, we had $1 billion of credit protection in place including $.2 billion in each of the telecommunication, energy and financial services sectors.

The portion of our business and government credit exposure rated investment grade increased slightly during 2002 from 69% to 70%. Business and government includes our small business portfolio, which is generally rated lower than larger businesses.

Table 16 on page 47A and Table 21 on page 52A provide a detailed breakdown of loans, acceptances and reverse repurchase agreements. Business and government loans and acceptances declined $5.6 billion in Canada and $1.7 billion internationally, with a $2.3 billion reduction outside of the U.S., partially offset by a $.6 billion increase in the U.S. The overall decrease is driven by the ongoing business strategy of exiting non-core client relationships in RBC Capital Markets. We do not engage in subprime lending in the U.S.

In Canada, there were no significant increases in any of the sectors other than the automotive sector where the increase was due to the reclassification of approximately $.8 billion of loans from transportation and environment. The largest reduction was in energy ($1.4 billion).

In the U.S., portfolio increases took place in energy ($1.1 billion) and commercial real estate ($.8 billion), partially offset by a decrease in industrial products ($.5 billion). The largest share of the increase in the energy sector was in power generation. The commercial real estate increase includes $.2 billion of loans acquired as a result of the Eagle Bancshares acquisition.

Outside Canada and U.S., loans decreased by $2.3 billion, including reductions in financial services, energy and industrial products. The overall reductions reflect focused de-marketing of Asia-Pacific loans, including Japan.

Telecommunication loans outstanding globally decreased by 22% to $1.7 billion at October 31, 2002. Non-investment grade telecommunication loans were $.9 billion, down from 59% of the portfolio to 49%. Currently seven telecommunication loans are classified as impaired, compared to six at October 31, 2001. Approximately 90% of the original impaired amount has been written-off or specifically provided for. This results in a net impaired amount of $41 million, at the end of 2002.

At October 31, 2002, loans outstanding to the power generation sub-sector within the energy sector were $2.0 billion, of which 48% were investment grade. The net impaired amount of $74 million related to three accounts.

For additional discussion of loans, see the Balance sheet and capital management section on page 58A.

Impaired loans

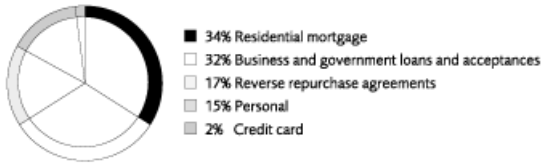
Loans are generally classified as impaired, meaning the accrual of interest is discontinued, under conditions described in Note 1 on page 72A.

As indicated in Table 17 on page 48A, gross impaired loans decreased $177 million during the year to $2,288 million. This decline reflects a slowdown in net additions ($1,280 million versus $1,912 million in 2001) and increased write-offs ($1,457 million versus $1,125 million in 2001).

Gross impaired loans decreased in both the consumer and the business and government loan portfolios.

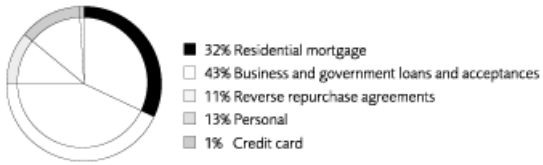
Breakdown of loans, acceptances and reverse repurchase agreements portfolio (2002)

Significant change...



Breakdown of loans, acceptances and reverse repurchase agreements portfolio (1998)

in portfolio mix



In the consumer portfolio, gross impaired loans decreased by $67 million to $437 million. Canada saw a large decrease ($75 million), resulting from overall portfolio improvement due to recent initiatives such as the implementation of an advanced risk modeling technology in order to optimize risk-return and the optimization of credit policies and procedures (including the implementation of new origination models and new credit management and collection procedures).

Business and government gross impaired loans fell $110 million to $1,851 million. This consisted of reductions in Canada ($276 million) and the U.S. ($50 million), offsetting increases in other international ($216 million). Gross impaired loans in the Canadian transportation and environment sector fell $136 million due to a significant single name returning to performing status. There were also decreases in commercial real estate loans ($72 million) and small business loans ($56 million). The U.S. saw a net decrease resulting from reductions in the telecommunication sector ($195 million), driven by significant write-offs. This decrease was partially offset by an increase in the energy and media and cable sectors. Each of these two sectors was impacted by single individual accounts. New impaired loans in Argentina contributed to an increase in other international.

As a percentage of related loans, acceptances and reverse repurchase agreements (after general allowance for loan losses) net impaired loans decreased slightly from .08% to .04%.

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 $1,065 million in 2002, down $54 million from 2001, as shown in Table 18 on page 49A.

We acquire credit protection on portions of our portfolio by entering into credit derivative contracts. We also provide protection through credit derivatives to various counterparties. This year's provision for credit losses included amounts related to a telecommunication account that was classified as impaired and was partially offset by gains of $102 million on a related credit derivative. This amount was recorded in other income. We had also provided credit protection through derivatives to counterparties with respect to a large U.S. telecommunication company, which defaulted during the year, leading to a mark-to-market loss of $69 million.

In the consumer portfolio, the specific provision increased by $25 million to $430 million. Business and government loans showed a slight decrease of $9 million to $635 million. This comprises decreases in Canada of $166 million, partially offset by increases in the U.S. of $52 million and other international of $105 million. The decreases in Canada are spread across various industries. In the U.S., there was an increase in the energy and information technology sectors, partially offset by decreases in commercial real estate and telecommunication. The increase in U.S. energy ($107 million) is due to a single account.

The specific provision amounted to .51% (.49% net of effect of credit derivatives) of average loans, acceptances and reverse repurchase agreements, down from .53% in 2001 and compared to a 2002 objective of .45% - .55%.

Outlook

In light of the continued economic and global political uncertainty that we face, we expect a specific provision for credit losses ratio of .45 - .55% in 2003, which is unchanged from our 2002 objective.

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 write-offs net of recoveries.

The determination of the allowance for credit losses is based upon estimates derived from historical analysis, adjusted to take into account 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.

The allowance for credit losses comprises three components — specific, general allocated and general unallocated — as described in Note 1 on page 73A.

As shown in Table 19 on page 50A, the allowance for credit losses decreased $78 million or 3% between 2001 and 2002 to $2,314 million. During the year, write-offs, net of recoveries, were $1,259 million or .60% of average loans, acceptances, and reverse repurchase agreements versus $940 million or .47% a year ago. The country risk allowance of $31 million has been eliminated as a result of the write-off of the related fully provisioned loans.

In 2000, we entered into an agreement with an AAA rated reinsurer to provide capital if exceptional losses occur in the bank's loan portfolio. During the year, the reinsurer was downgraded from AAA. Based on this development and an internal review by management, the agreement was not renewed for fiscal 2003.

Credit risk concentrations

Concentration risk exists if a number of clients are engaged in similar activities, are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Strategies to minimize concentration risk are discussed further under portfolio diversification in the Risk management section on page 55A. In terms of geographic risk, Table 16 on page 47A shows that the largest domestic geographic exposure is in Ontario, comprising

38% of total loans, acceptances and reverse repurchase agreements. Internationally, the largest concentration is in the U.S. where we have 15% of our total loans, acceptances and reverse repurchase agreements.

As shown in Table 16 on page 47A, excluding small business, the largest sector concentrations are in financial services, commercial real estate and energy, with 4%, 3% and 3% of loans, acceptances and reverse repurchase agreements, respectively.

Table 20 on page 51A illustrates geographic risk concentrations of contractual amounts with clients outside of Canada. Only 11% of contractual amounts with clients are outside Canada and the U.S.

TABLE 16 Loans, acceptances and reverse repurchase agreements (1)

($ millions, except percentage amounts)	2002	2001	2000	1999	1998	2002	1998
Canada							
Atlantic provinces (2)	**$ 9,770**	$ 9,654	$ 9,690	$ 8,840	$ 8,052	**4.5%**	4.5%
Quebec	**15,190**	13,863	16,191	14,936	14,066	**7.1**	7.9
Ontario	**82,689**	92,966	73,124	67,120	64,566	**38.4**	36.3
Prairie provinces (3)	**26,989**	25,192	29,402	25,521	23,288	**12.5**	13.1
British Columbia	**23,367**	22,696	25,118	23,141	22,295	**10.9**	12.5
Total Canada	**158,005**	164,371	153,525	139,558	132,267	**73.4**	74.3
Consumer							
Residential mortgage	**67,700**	64,066	61,444	58,524	56,437	**31.5**	31.7
Personal	**25,918**	27,202	27,207	24,353	21,814	**12.0**	12.3
Credit card	**4,740**	4,110	4,666	2,666	1,945	**2.2**	1.1
	98,358	95,378	93,317	85,543	80,196	**45.7**	45.1
Business and government loans and acceptances							
Small business (4)	**9,470**	9,788	11,701	10,334	8,452	**4.4**	4.7
Agriculture	**4,427**	4,758	4,931	4,217	3,851	**2.1**	2.2
Financial services	**3,015**	3,010	2,218	1,567	1,718	**1.4**	1.0
Energy	**2,911**	4,293	3,754	3,350	3,442	**1.4**	1.9
Commercial mortgages	**2,468**	2,635	2,961	2,635	2,434	**1.1**	1.4
Commercial real estate	**2,393**	2,325	2,594	2,400	2,523	**1.1**	1.4
Consumer goods	**2,238**	2,447	2,874	2,086	2,802	**1.0**	1.6
Industrial products	**1,569**	2,174	2,470	2,301	2,241	**.7**	1.3
Transportation and environment (5)	**1,450**	2,138	1,519	1,562	1,392	**.7**	.8
Automotive (5)	**1,370**	864	673	611	698	**.6**	.4
Government	**1,039**	1,597	1,385	2,105	1,951	**.5**	1.1
Media and cable (6)	**994**	1,510	1,120	1,135	959	**.5**	.5
Forest products	**954**	1,275	1,362	1,151	1,728	**.4**	1.0
Telecommunication	**487**	677	1,008	525	361	**.2**	.2
Mining and metals	**361**	636	897	845	750	**.2**	.4
Information technology	**191**	203	210	191	204	**.1**	.1
Other	**5,194**	5,803	6,437	4,650	4,577	**2.4**	2.5
	40,531	46,133	48,114	41,665	40,083	**18.8**	22.5
Reverse repurchase agreements	**19,116**	22,860	12,094	12,350	11,988	**8.9**	6.7
Total Canada	**158,005**	164,371	153,525	139,558	132,267	**73.4**	74.3
International							
United States	**32,442**	29,879	15,939	17,247	17,728	**15.1**	10.0
Europe, Middle East and Africa	**19,006**	16,860	9,782	9,642	16,822	**8.8**	9.5
Caribbean	**2,018**	1,856	2,059	1,502	1,573	**.9**	.9
Latin America	**1,400**	1,680	1,842	2,309	3,875	**.6**	2.2
Asia	**1,004**	1,328	1,781	2,417	4,550	**.5**	2.5
Australia and New Zealand	**1,468**	1,207	1,218	1,693	1,085	**.7**	.6
Total international	**57,338**	52,810	32,621	34,810	45,633	**26.6**	25.7
Consumer							
Residential mortgage	**5,140**	3,376	1,540	718	632	**2.4**	.4
Personal	**6,038**	5,309	812	902	947	**2.8**	.5
Credit card	**174**	173	—	—	—	**.1**	—
	11,352	8,858	2,352	1,620	1,579	**5.3**	.9
Business and government loans and acceptances							
Financial services	**6,542**	9,347	7,912	6,937	10,896	**3.0**	6.1
Energy	**3,731**	2,994	3,051	3,887	4,702	**1.7**	2.6
Commercial real estate	**5,124**	4,082	271	464	862	**2.4**	.5
Consumer goods	**1,383**	1,699	1,111	1,411	2,756	**.6**	1.5
Industrial products	**1,199**	2,116	1,749	1,325	1,881	**.6**	1.1

Transportation and environmental	**2,442**	1,571	1,487	1,975	2,296	**1.1**	1.3
Automotive	**411**	527	513	878	2,264	**.2**	1.3
Government	**130**	128	167	773	492	**.1**	.3
Media and cable (6)	**1,321**	1,380	2,033	1,909	2,270	**.6**	1.3
Forest products	**417**	385	468	549	609	**.2**	.3
Telecommunication	**1,246**	1,558	2,244	1,206	1,756	**.6**	1.0
Mining and metals	**1,192**	1,071	901	881	1,323	**.6**	.7
Information technology	**180**	396	433	709	1,212	**.1**	.7
Other	**3,953**	3,688	1,720	2,364	2,816	**1.8**	1.6
	29,271	30,942	24,060	25,268	36,135	**13.6**	20.3
Reverse repurchase agreements	**16,715**	13,010	6,209	7,922	7,919	**7.7**	4.5
Total international	**57,338**	52,810	32,621	34,810	45,633	**26.6**	25.7
Total loans, acceptances and reverse repurchase agreements	**215,343**	217,181	186,146	174,368	177,900	**100%**	100%
Allowance for loan losses	**(2,203)**	(2,278)	(1,871)	(1,884)	(2,026)		
Total	**$ 213,140**	$ 214,903	$ 184,275	$ 172,484	$ 175,874		

(1) Based on residence of borrower.

(2) Includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.

(3) Includes Manitoba, Saskatchewan and Alberta.

(4) Small business loans in 2002 comprises the following industries: commercial real estate of $1,737 million (2001 — $1,788 million); consumer goods of $1,583 million (2001 — $1,665 million); industrial products of $887 million (2001 — $916 million); transportation and environmental of $552 million (2001 — $605 million); automotive of $377 million (2001 — $434 million); forest products of $278 million (2001 — $296 million); energy of $125 million (2001 — $157 million); information technology of $93 million (2001 — $133 million); mining and metals of $69 million (2001 — n.a.); financial services of $132 million (2001 — $96 million); media and cable of $77 million (2001 — $84 million); telecommunication of $34 million (2001 — $45 million); and other of $3,526 million (2001 — $3,569 million).

(5) Commencing in 2002, certain amounts were reclassified from transportation and environmental sector grouping to the automotive group.

(6) Includes cable loans of $267 million in Canada in 2002 (2001 — $330 million; 2000 — $262 million; 1999 — $169 million; 1998 — $164 million) and $634 million internationally in 2002 (2001 — $625 million; 2000 — $1,321 million; 1999 — $850 million; 1998 — $1,221 million).

TABLE 17 Impaired loans

($ millions, except percentage amounts)	2002 Gross	2002 Net (1)	2001 Gross	2001 Net (1)	2000 Net (1)	1999 Net (1)	1998 Net (1)
Canada							
Atlantic provinces (2)	**$ 107**	**$ 55**	$ 124	$ 67	$ 65	$ 37	$ 24
Quebec	**90**	**60**	282	204	121	158	142
Ontario	**471**	**261**	621	330	287	190	80
Prairie provinces (3)	**177**	**98**	143	71	57	109	64
British Columbia	**427**	**292**	453	335	266	287	350
Total Canada	**1,272**	**766**	1,623	1,007	796	781	660
Consumer							
Residential mortgage	**102**	**87**	142	118	157	131	116
Personal	**275**	**112**	310	129	51	66	61
	377	**199**	452	247	208	197	177
Business and government							
Small business (4)	**205**	**104**	261	132	141	134	43
Agriculture (4)	**141**	**97**	111	86	39	49	31
Financial services	**—**	**(1)**	7	2	7	1	(1)
Energy	**1**	**1**	27	9	—	32	5
Commercial mortgages	**17**	**8**	22	5	—	7	5
Commercial real estate	**23**	**11**	95	44	41	109	69
Consumer goods	**47**	**26**	11	5	23	19	29
Industrial products	**23**	**12**	45	26	18	6	1
Transportation and environment	**138**	**108**	274	222	120	12	3
Automotive	**10**	**3**	18	5	4	—	—
Media and cable	**18**	**6**	43	15	17	30	23
Forest products	**199**	**156**	195	184	180	197	285
Telecommunication	**20**	**6**	—	—	—	—	—
Mining and metals	**—**	**—**	1	1	(1)	(1)	—
Information technology	**6**	**2**	11	7	(2)	2	8
Other	**47**	**28**	50	17	1	(13)	(18)
	895	**567**	1,171	760	588	584	483
Total Canada	**1,272**	**766**	1,623	1,007	796	781	660
International							
United States	**584**	**355**	626	375	69	25	15
Latin America	**217**	**154**	14	5	3	3	1
Europe, Middle East and Africa	**115**	**50**	79	35	7	12	24
Caribbean	**71**	**52**	55	39	26	28	31
Australia and New Zealand	**26**	**17**	23	19	—	—	—
Asia	**3**	**—**	14	3	2	35	54
	1,016	**628**	811	476	107	103	125
LDCs	**—**	**—**	31	—	—	—	—
Total international	**1,016**	**628**	842	476	107	103	125
Consumer							
Residential mortgage	**29**	**26**	37	35	5	6	7
Personal	**31**	**17**	15	8	**—**	**—**	**—**
	60	**43**	52	43	5	6	7
Business and government							
Financial services	**77**	**46**	83	24	(2)	22	15
Energy	**242**	**139**	3	—	(2)	3	4
Commercial real estate	**75**	**62**	81	49	1	4	10
Consumer goods	**10**	**7**	19	7	—	2	34
Industrial products	**30**	**13**	10	(2)	38	15	22
Transportation and environment	**68**	**39**	91	58	25	—	1
Automotive	**29**	**22**	33	25	—	(3)	10
Media and cable (5)	**56**	**56**	—	—	—	—	—
Telecommunication	**77**	**35**	272	122	—	—	—

Mining and metals	**128**	**90**	40	29	6	2	—
Information technology	**48**	**17**	76	70	—	—	—
Other	**116**	**59**	82	51	36	52	22
	956	**585**	790	433	102	97	118
Total international	**1,016**	**628**	842	476	107	103	125
Total (6), (7)	**$ 2,288**	**$ 1,394**	**$** 2,465	$ 1,483	$ 903	$ 884	$ 785

(1) Net of specific allowance.

(2) Includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.

(3) Includes Manitoba, Saskatchewan and Alberta.

(4) Includes government guaranteed portions of impaired loans of $64 million in small business in 2002 (2001 — $95 million; 2000 — $101 million; 1999 — $79 million) and $10 million in agriculture (2001 — $6 million; 2000 — $6 million; 1999 — $5 million). Prior to 1999, only the non-guaranteed portion was considered impaired.

(5) Consists entirely of cable impaired loans.

(6) Includes foreclosed assets of $32 million in 2002 (2001 — $37 million; 2000 — $16 million; 1999 — $26 million; 1998 — $28 million).

(7) Past due loans greater than 90 days not included in impaired loans was $217 million in 2002 (2001 — $245 million).

TABLE 18 Provision for credit losses

($ millions, except percentage amounts)	2002	2001	2000	1999	1998
Canada					
Atlantic provinces(1)	**$ 59**	$ 63	$ 58	$ 32	$ 35
Quebec	**(5)**	43	22	71	63
Ontario	**330**	398	342	52	144
Prairie provinces(2)	**86**	81	64	95	53
British Columbia	**59**	104	40	192	132
Total Canada	**529**	689	526	442	427
Consumer					
Residential mortgage	**3**	8	—	4	9
Personal	**266**	265	301	172	171
Credit card	**135**	125	102	55	28
	404	398	403	231	208
Business and government					
Small business	**110**	164	105	113	48
Agriculture	**22**	20	4	2	4
Financial services	**(27)**	(9)	—	5	113
Energy	**4**	17	(8)	12	1
Commercial mortgages	**(5)**	7	2	8	6
Commercial real estate	**(15)**	15	(17)	9	(30)
Consumer goods	**19**	2	7	11	23
Industrial products	**(7)**	14	2	(10)	(6)
Transportation and environment	**(19)**	13	56	7	(27)
Automotive	**—**	17	—	—	—
Media and cable	**(7)**	13	12	8	4
Forest products	**4**	7	(36)	81	76
Telecommunication	**59**	—	(1)	(32)	(29)
Mining and metals	**(1)**	—	(1)	1	—
Information technology	**3**	3	8	8	5
Other	**(15)**	8	(10)	(12)	31
	125	291	123	211	219
Total Canada	**529**	689	526	442	427
International					
United States	**440**	377	99	45	(7)
Latin America	**57**	5	2	2	(2)
Europe, Middle East and Africa	**38**	(1)	(9)	21	10
Caribbean	**6**	(6)	3	—	3
Australia and New Zealand	**5**	4	—	—	—
Asia	**(10)**	(19)	(50)	20	124
Total international	**536**	360	45	88	128
Consumer					
Residential mortgage	**7**	—	—	1	1
Personal	**15**	5	—	—	—
Credit card	**4**	2	—	—	—
	26	7	—	1	1
Business and government					
Financial services	**21**	(3)	(21)	2	36
Energy	**141**	(8)	(2)	—	21
Commercial real estate	**4**	65	1	2	(2)
Consumer goods	**(2)**	—	(7)	(10)	(5)
Industrial products	**5**	3	34	31	9
Transportation and environment	**21**	8	42	**—**	(1)
Automotive	**1**	7	(8)	(2)	29
Media and cable	**—**	3	—	—	—
Telecommunication	**202**	272	—	—	—
Mining and metals	**28**	—	2	15	—
Information technology	**41**	7	—	3	—

Other	**48**	(1)	4	46	40
	510	353	45	87	127
Total international	**536**	360	45	88	128
Total specific provision	**1,065**	1,049	571	530	555
Country risk provision	**—**	—	—	—	(80)
General allocated (3)	**(22)**	205	73	n.a.	n.a.
General unallocated (3)	**22**	(135)	47	n.a.	n.a.
Total general provision (3)	**—**	70	120	230	100
Total	**$ 1,065**	$ 1,119	$ 691	$ 760	$ 575

(1) Includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.

(2) Includes Manitoba, Saskatchewan and Alberta.

(3) The general allocated provision and the general unallocated provision together totalled $230 million in 1999 and $100 million in 1998. These were not separated into the general allocated and general unallocated components.

TABLE 19 Allowance for credit losses

($ millions, except percentage amounts)	2002	2001	2000	1999	1998
Allowance at beginning of year	**$ 2,392**	$ 1,975	$ 1,900	$ 2,066	$ 2,118
Provision for credit losses	**1,065**	1,119	691	760	575
Write-offs					
Canada					
Residential mortgage	**(11)**	(15)	(11)	(14)	(17)
Personal	**(381)**	(394)	(372)	(236)	(163)
Credit card	**(172)**	(169)	(150)	(65)	(52)
Business and government	**(330)**	(296)	(225)	(524)	(250)
	(894)	(874)	(758)	(839)	(482)
International					
Residential mortgage	**(1)**	(9)	—	—	—
Personal	**(17)**	(7)	—	—	—
Credit card	**(6)**	(2)	—	—	—
Business and government	**(506)**	(233)	(81)	(229)	(29)
LDC exposures	**(33)**	—	—	(4)	(325)
	(563)	(251)	(81)	(233)	(354)
	(1,457)	(1,125)	(839)	(1,072)	(836)
Recoveries					
Canada					
Residential mortgage	**—**	—	—	2	6
Personal	**68**	66	44	31	26
Credit card	**37**	44	48	10	24
Business and government	**72**	58	48	66	80
	177	168	140	109	136
International					
Personal	**2**	1	—	—	—
Credit card	**1**	—	—	—	—
Business and government	**18**	16	22	5	8
	21	17	22	5	8
	198	185	162	114	144
Net write-offs	**(1,259)**	(940)	(677)	(958)	(692)
Acquisition of Centura Banks	**—**	157	—	—	—
Acquisition Eagle Bancshares	**18**	—	—	—	—
Adjustments	**98**	81	61	32	65
Allowance at end of year	**$ 2,314**	$ 2,392	$ 1,975	$ 1,900	$ 2,066
Allocation of allowance (1)					
Canada					
Residential mortgage	**$ 35**	$ 45	$ 46	$ 53	$ 50
Personal	**429**	447	403	344	156
Credit card	**147**	147	88	60	—
Business and government	**711**	791	664	748	604
	1,322	1,430	1,201	1,205	810
International					
Residential mortgage	**6**	4	11	9	7
Personal	**36**	33	—	—	—
Credit card	**5**	5	—	—	—
Business and government	**583**	581	322	380	359
	630	623	333	389	366
Allocated allowance for loan losses (2)	**1,952**	2,053	1,534	1,594	n.a.

Unallocated allowance for loan losses (2)	**251**	225	337	290	n.a.
Total allowance for loan losses	**2,203**	2,278	1,871	1,884	2,026
Allowance for off-balance sheet and other items (3)	**109**	109	98	—	—
Allowance for tax-exempt securities	**2**	5	6	16	40
Total allowance for credit losses	**$ 2,314**	$ 2,392	$ 1,975	$ 1,900	$ 2,066
Percentage of loans to total loans (4), (5)					
Canada					
Residential mortgage	**32%**	30%	33%	34%	32%
Personal	**12**	12	15	14	12
Credit card	**2**	2	2	1	1
Business and government	**26**	30	32	32	32
	72	74	82	81	77
International	**28**	26	18	19	23
Total	**100%**	100%	100%	100%	100%

(1) As a result of a change in methodology in 1999, the allowance for loan losses in 2002, 2001, 2000 and 1999 includes amounts for the general allocated allowance, which have been allocated to loan categories. These amounts total $1,060 million (2001 — $1,076 million; 2000 — $765 million; 1999 — $790 million) and have been allocated as follows: for Canada — residential mortgage $20 million (2001 — $21 million; 2000 — $18 million; 1999 — $11 million), personal $266 million (2001 — $266 million; 2000 — $207 million; 1999 — $174 million), credit card $147 million (2001 — $147 million; 2000 — $88 million; 1999 — $60 million), business and government $386 million (2001 — $385 million; 2000 — $321 million; 1999 — $370 million), and for International — residential mortgage $3 million (2001 — $2 million; 2000 and 1999 — nil), personal $22 million (2001 — $26 million; 2000 and 1999 — nil), credit card $5 million (2001 — $5 million; 2000 and 1999 — nil), business and government $211 million (2001 — $224 million; 2000 — $131 million; 1999 — $175 million). The amounts prior to 1999 do not include the general allocated allowance.

(2) The general allocated and the general unallocated allowance totalled $850 million in 1998. These were not separated into the general allocated and general 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) Loans include acceptances and reverse repurchase agreements.

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

TABLE 20 Foreign outstandings (1)

($ millions, except percentage amounts)	2002	% of total assets	2001	% of total assets	2000	% of total assets
United States — Banks	**$ 5,838**		$ 7,186		$ 5,462	
Government	**3,257**		3,834		889	
Other	**62,210**		49,172		30,034	
	71,305	**18.92%**	60,192	16.75%	36,385	12.56%
Western Europe						
United Kingdom — Banks	**7,179**		6,275		4,347	
Government	**295**		153		26	
Other	**5,719**		5,256		5,791	
	13,193	**3.50**	11,684	3.25	10,164	3.51
France — Banks	**2,061**		2,378		2,379	
Government	**86**		68		45	
Other	**831**		1,176		1,552	
	2,978	**.79**	3,622	1.01	3,976	1.37
Germany — Banks	**5,344**		5,952		5,471	
Government	**318**		173		1	
Other	**381**		559		643	
	6,043	**1.60**	6,684	1.86	6,115	2.11
Netherlands	**2,271**	**.60**	2,218	.62	1,300	.45
Switzerland	**1,714**	**.45**	1,362	.38	1,687	.58
Other	**5,658**	**1.51**	5,244	1.46	4,305	1.49
	31,857	**8.45**	30,814	8.58	27,547	9.51
Central/Eastern Europe, Middle East and Africa	**247**	**.07**	469	.13	645	.22
Latin America						
Argentina	**146**	**.04**	193	.06	324	.11
Brazil	**38**	**.01**	71	.02	75	.02
Chile	**800**	**.21**	836	.23	751	.26
Mexico	**493**	**.13**	696	.19	343	.12
Other	**42**	**.01**	174	.05	212	.08
	1,519	**.40**	1,970	.55	1,705	.59
Caribbean						
Bahamas	**1,453**	**.38**	1,520	.42	1,549	.54
Other	**485**	**.13**	1,902	.53	1,952	.67
	1,938	**.51**	3,422	.95	3,501	1.21
Asia						
Japan — Banks	**321**		53		634	
Government	**2,426**		1,663		1,599	
Other	**64**		988		1,000	
	2,811	**.75**	2,704	.75	3,233	1.12
Singapore	**229**	**.06**	217	.06	336	.11
South Korea	**405**	**.11**	449	.13	338	.11
Other	**38**	**.01**	145	.04	188	.07
	3,483	**.93**	3,515	.98	4,095	1.41
Australia and New Zealand	**2,842**	**.75**	2,335	.65	1,775	.61
Allowance for loan losses (2)	**(760)**	**(.20)**	(728)	(.20)	(441)	(.15)
Total	**$112,431**	**29.83%**	$101,989	28.39%	$75,212	25.96%

(1) Includes contractual amounts with clients in a foreign country related to: loans, accrued interest, acceptances, interest-bearing deposits with 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 international component of the specific, general allocated and general unallocated allowance. For years prior to 2002, the allowance for loan losses also includes the country risk allowance.

Table 21 U.S. Loans, acceptances and reverse repurchase agreements and loan quality information (1)

($ millions)	Loan balance			Gross impaired loans			Net impaired loans			Provision for credit losses		
	2002	2001	2000	2002	2001	2000	2002	2001	2000	2002	2001	2000
Consumer												
Residential mortgage	**$ 4,351**	$ 2,664	$ 845	**$ 16**	$ 24	$ —	**$ 13**	$ 22	$—	**$ 7**	$ 8	$ —
Personal	**5,269**	4,621	78	**31**	15	—	**17**	8	—	**15**	5	—
Credit card	**125**	128	—	**—**	—	—	**—**	—	—	**4**	2	—
	9,745	7,413	923	**47**	39	—	**30**	30	—	**26**	15	—
Business and government loans and acceptances												
Financial services	**3,770**	4,104	4,521	**46**	30	—	**35**	23	—	**11**	7	—
Energy	**2,680**	1,613	1,582	**95**	—	—	**29**	—	—	**107**	—	—
Commercial real estate	**4,531**	3,773	44	**75**	81	4	**62**	49	1	**5**	66	2
Consumer goods	**958**	1,172	435	**10**	9	—	**7**	7	—	**4**	2	—
Industrial products	**974**	1,513	1,107	**30**	8	68	**13**	(1)	34	**8**	3	40
Transportation and environmental	**484**	788	469	**36**	48	56	**28**	26	25	**5**	(4)	42
Automotive	**409**	408	221	**29**	33	—	**22**	25	—	**1**	6	—
Government	**19**	23	—	**—**	—	—	**—**	—	—	**—**	—	—
Media and cable (2)	**1,107**	1,038	1,782	**56**	—	—	**56**	—	—	**—**	3	—
Forest products	**223**	98	181	**—**	—	—	**—**	—	—	**—**	—	—
Telecommunication	**689**	835	1,131	**77**	272	—	**35**	122	—	**202**	272	—
Mining and metals	**70**	45	104	**—**	—	—	**—**	—	—	**—**	—	—
Information technology	**177**	299	374	**48**	76	—	**17**	70	—	**41**	7	—
Other	**3,348**	3,089	541	**35**	30	17	**21**	24	9	**30**	—	15
	19,439	18,798	12,492	**537**	587	145	**325**	345	69	**414**	362	99
Reverse repurchase agreements	**3,258**	3,668	2,524	—	—	—	**—**	—	—	—	—	—
	$32,442	$29,879	$15,939	**$584**	$626	$145	**$355**	$375	$69	**$ 440**	$ 377	$ 99

(1) Based on residence of the borrower.

(2) Includes cable loans of $522 million in 2002 (2001 — $455 million; 2000 — $1,162 million) and cable gross impaired loans of $56 million in 2002.

Table 22 Risk Profile

($ millions, except percentage amounts)	2002	2001	2000	1999	1998
Gross impaired loans					
Beginning of year	**$ 2,465**	$ 1,678	$1,704	$ 2,001	$1,819
Net additions	**1,280**	1,912	813	743	628
Write-offs and adjustments	**(1,457)**	(1,125)	(839)	(1,040)	(446)
End of year	**$ 2,288**	$ 2,465	$1,678	$ 1,704	$2,001
Allowance for credit losses					
Specific	**$ 894**	$ 951	$ 747	$ 786	$1,176
Country risk	**—**	31	28	34	40
General allowance (2)					
General allocated (2), (4)	**1,169**	1,185	863	790	n.a.
General unallocated (2)	**251**	225	337	290	n.a.
Total general allowance (2)	**1,420**	1,410	1,200	1,080	850
Total	**$ 2,314**	$ 2,392	$1,975	$ 1,900	$2,066
As a % of loans, acceptances and reverse repurchase agreements	**1.0%**	1.1%	1.0%	1.1%	1.2%
As a % of impaired loans (coverage ratio), excluding LDCs	**96%**	93%	112%	112%	103%

Net impaired loans as a % of related loans, acceptances and reverse repurchase agreements (1)					
Canada					
Residential mortgage	**.13%**	.18%	.26%	.22%	.21%
Personal	**.43**	.48	.19	.27	.28
Business and government	**1.00**	1.17	.99	1.05	.86
	.49	.63	.52	.55	.48
International	**1.05**	.85	.33	.32	.31
Total before general allowance for loan losses	**.65**	.69	.49	.51	.44
Total after general allowance for loan losses	**.04%**	.08%	(.11)%	(.11)%	(.04)%
Provision for credit losses					
Specific	**$ 1,065**	$ 1,049	$ 571	$ 530	$ 555
Country risk	**—**		—	—	(80)
General provision (3)					
General allocated (3)	**(22)**	205	73	n.a.	n.a.
General unallocated (3)	**22**	(135)	47	n.a.	n.a.
Total general provision	**—**	70	120	230	100
Total	**$ 1,065**	$ 1,119	$ 691	$ 760	$ 575
As a % of related average loans, acceptances and reverse repurchase agreements					
Canada					
Residential mortgage	**—%**	.01%	—%	.01%	.02%
Personal	**1.00**	.94	1.12	.71	.76
Credit card	**3.10**	2.73	2.87	2.39	1.39
Business and government	**.21**	.52	.22	.40	.37
	.34	.45	.36	.32	.31
International	**.98**	.74	.13	.23	.31
Total specific provision	**.51%**	.53%	.32%	.30%	.31%
Total provision	**.51%**	.56%	.38%	.43%	.32%
Net write-offs (excluding LDCS) as a % of average loans, acceptances and reverse repurchase agreements	**.58%**	.47%	.38%	.54%	.21%
Net write-offs as a % of average loans, acceptances and reverse repurchase agreements	**.60%**	.47%	.38%	.55%	.39%

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

(2) The general allowance was not separated into allocated and unallocated components prior to October 31, 1999.

(3) The general provision was not separated into allocated and unallocated components prior to November 1, 1999.

(4) Includes the allowance for off-balance sheet and other items.

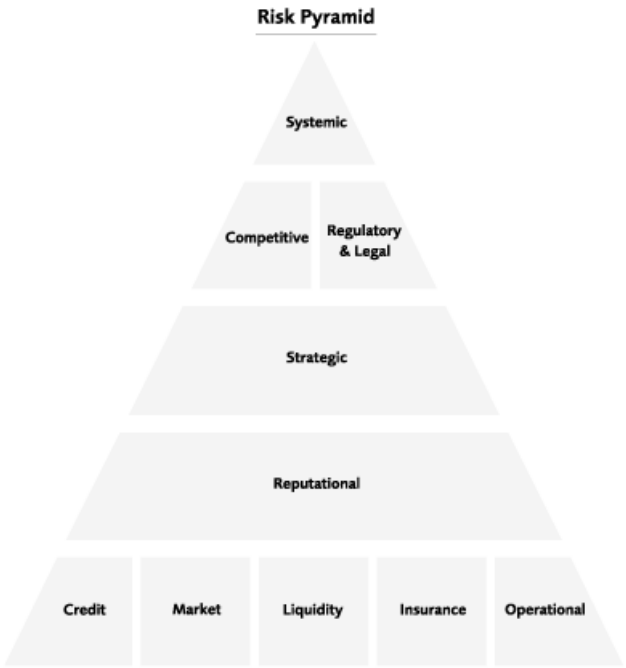
Risk management

Overview

The risk management function strives to build shareholder value through leadership in the strategic management of risk. Priorities include:

- Enhancing communication on risk and risk appetite throughout the organization
- Aligning the risk management function with our business segments
- Investing in our capabilities to better measure, understand and manage risk
- Strengthening the efficiency, accessibility and responsiveness of key risk processes and practices
- Attracting, developing and retaining a team of highly performing professionals

Our business activities expose us to the risks outlined in the risk pyramid below. We use the risk pyramid as the primary tool to identify and assess risk across the organization. It provides a common language for evaluating risk in business reviews, new business, new products, new initiatives, acquisitions or alliances. We pay particular attention to the more controllable risks along the bottom of the pyramid.



- **Credit Risk** is the risk of loss due to a counterparty's inability to fulfill its payment obligations. It also refers to a loss in market value due to the deterioration of a counterparty's financial position. A counterparty may be an issuer, debtor, borrower, policyholder, reinsurer or guarantor.
- **Market Risk** is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices.
- **Liquidity Risk** is the risk that we are unable to generate or obtain sufficient cash or equivalents on a cost-effective basis to meet our commitments as they fall due.
- **Insurance Risk**, relative to our insurance platform, is the risk inherent in the development, issuance and administration of insurance policies, and includes product design and pricing risk, claims administration risk, underwriting risk and liability risk.
- **Operational Risk** is the risk of direct or indirect loss resulting from inadequate or failed technology, human performance, processes or external events. The impact of operational risk can be financial loss, loss of reputation, loss of competitive position or legal and regulatory proceedings.



An organizational perspective

The cornerstone of effective risk management is a strong risk management culture, supported by numerous strategy and policy development processes, run jointly by risk management professionals and the business segments. This partnership is designed to ensure strategic alignment of business, risk and resource issues.

Risk management professionals work in partnership with the business segments and functional units to identify risks, which are 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 the efficient allocation of capital.

A structure of management and board committees provides oversight of the risk management process.

The Board of Directors and Group Risk Committee
The top level of the organizational perspective risk pyramid on page 53A comprises the Board of Directors, the Conduct Review and Risk Policy Committee and Group Risk Committee. Key responsibilities are to:

- Shape, influence and communicate the organization's risk culture
- Determine and communicate the organization's risk appetite
- Define the organizational structure for Group Risk Management
- Review and approve policies for controlling risk
- Review and monitor the major risks being assumed by, or facing, the organization, providing direction as required
- Ensure there are sufficient and appropriate risk management resources across the organization against the risks being taken

Risk management
The middle level of the organizational perspective risk pyramid on page 53A comprises the Chief Risk Officer, Group Risk Management and the various Risk Committees. The Risk Committees include the Asset/Liability Committee, U.S. Corporate Governance Committee, the Ethics and Compliance Committee, Risk Management Committee and other committees responsible for areas such as interest rate risk and trading risk. During 2002, the SPE Risk Committee was established with a mandate to review and report on the activities of SPEs. This Committee reports jointly to the Chief Risk Officer and the Chief Financial Officer to ensure compliance with SPE policies and procedures across the enterprise. See page 64A for further discussion of SPEs.

Key responsibilities are to:

- Implement and maintain an integrated enterprise-wide risk measurement, management and reporting framework
- Establish a comprehensive risk assessment and approval process including enterprise-wide policies and procedures
- Establish guidelines and risk limits to ensure appropriate risk diversification and optimization of risk-return on both a portfolio and transactional basis
- Advise the board and executive management of major risks being assumed by, or facing, the organization
- Partner with the business segments in identifying, understanding, measuring, mitigating and monitoring the risks being taken

Economic Capital
Economic Capital (EC) is an estimate of the amount of equity required to underpin risks. It is calculated by determining the level of capital that is necessary to cover risks consistent with our desired solvency standard and debt ratings. EC analysis is intended to represent the shareholder's perspective and drives the optimization of shareholder returns. Calculation of EC involves a number of judgments and assumptions, and changes to them may result in different amounts of EC being computed.

EC is attributed to provide directly comparable performance measurements for each of our business activities and assist senior management in strategic planning, resource allocation and performance measurement. Capital attribution methodologies are continuously monitored to ensure risks are being consistently quantified utilizing all available information. Periodically, enhancements are made to these methodologies with the changes applied prospectively.

EC attribution methodology aims to:

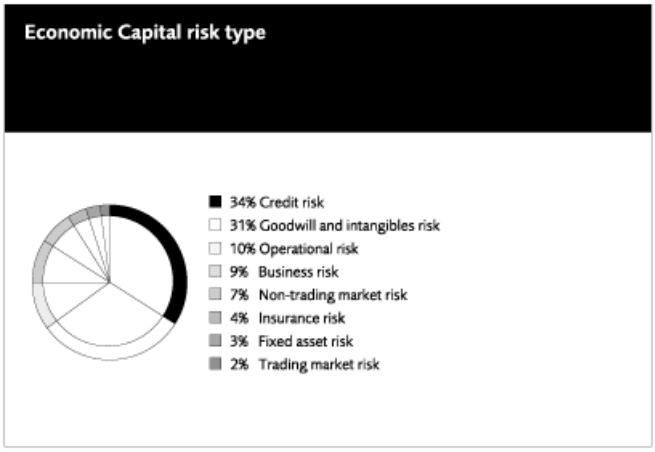
- Cover all risks
- Ensure that a dollar of capital represents the same amount of risk wherever attributed
- Determine capital requirements in an unbiased accurate manner
- Create economically rational incentives for business managers

EC is a component in the calculation of Economic Profit (see page 26A). Capital attribution strengthens risk management discipline. EC is calculated for the following eight distinct risk types: credit risk, goodwill and intangibles risk, operational risk, business risk, non-trading market risk, insurance risk, fixed asset risk and trading market risk. Credit, market, insurance and operational risk are further detailed in the following sections. Business risk is the risk of loss due to variances in volumes, prices and costs caused by competitive forces, regulatory changes, and reputational and strategic risks. Goodwill and intangibles and fixed asset risks are defined as the risk that the value of these assets will be less than their net book value at a future date.

The combination of risk factors between and within risk categories and lines of business leads to some risk reduction, called diversification. These diversification benefits are passed on to our businesses. Therefore, Economic Profit and return on equity calculations are based on EC

levels that include these diversification effects.

The following chart represents the proportionate EC levels by risk type for fiscal 2002.



The following sections discuss how we manage the major controllable risks including credit, market, liquidity, insurance and operational risk.

Credit risk

Credit risk is attributed to both on-balance sheet financial instruments such as loans and acceptances and credit equivalent amounts related to off-balance sheet financial instruments.

Our 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 our business culture. The goal of credit risk management is to evaluate and manage credit risk in order to further enhance this strong credit culture.

As discussed in the credit quality section on pages 45A to 52A, we have significantly enhanced our loan mix. This improvement is being achieved through our strategy of reducing exposure to non-core corporate client relationships while increasing the size of the consumer portfolio, including residential mortgages, which have very low loss rates.

We are continually adding to and improving the analytical tools used to analyze, measure and manage credit risk. This includes the use of third-party modeling tools, increased use of stress testing and enhanced management information systems.

Risk ratings
Corporate borrowers are assigned an internal risk rating based on a detailed examination of the organization. This examination considers industry sector trends, market competitiveness, overall company strategy,

financial strength, access to funds, financial management and any other risks facing the organization. Our rating system is based on a 22-point scale.

Credit scoring models are utilized to determine a credit score for consumer and certain small business lending. The credit scores measure the relative risk of the initial extension of credit and any further increases. Consumer credit risk is monitored using statistical scoring models and payment history in order to predict portfolio behaviour.

The internal risk ratings and credit scores are assessed and updated on a regular basis.

Portfolio diversification
Portfolio diversification is our overriding principle, therefore, our credit policies and limits are structured to ensure we are not overexposed to any given client, industry sector or geographic area.

To avoid excessive losses if any particular counterparty is unable to fulfill its payment obligations, we have established single name limits that are set according to risk ratings. In certain cases loans are syndicated in order to reduce overall exposure to a single name.

Limits are also in place to manage exposure to any particular country or sector. Each country and sector is assigned a risk rating. This risk rating considers factors common to all entities in a given country or sector yet outside the control of any individual entity. Limits are determined based on the risk rating along with our overall risk appetite and business strategy.

Risk mitigation
In order to mitigate risk on portions of our portfolio we enter into credit derivative contracts. As at October 31, 2002, credit mitigation was in place to cover $1.0 billion in corporate credit exposure. We also provided protection through credit derivatives to various counterparties totalling $.3 billion as at October 31, 2002.

Loan sales are also used to mitigate risk. We seek to identify and sell loans we have made to borrowers whose risk and reward profile and borrower ratings are no longer desirable to us.

In order to respond proactively to credit deterioration and mitigate risk, a problem loan workout group with specialized expertise handles the management and collection of impaired loans as well as certain loans not currently impaired.

Market risk
The level of market risk to which we are exposed varies continually, reflecting changing market conditions, expectations of future price and market movements and the composition of our trading and non-trading portfolios. We have established risk management policies and limits for our trading and asset/liability management activities that allow us to monitor and control the exposure to market risk resulting from these activities. We conduct trading activities over-the-counter and on exchanges in the spot, forward, futures and options market and also participate in structured derivative transactions.

Interest rate risk
Interest rate risk is the potential adverse impact on our earnings and economic value due to changes in interest rates. In addition to the following discussion on trading activities please see the Non-trading portfolio section on page 61A.

Credit spread risk
Credit spread risk is the potential adverse impact on our earnings and economic value due to changes in credit worthiness of persons we have credit exposure to both specifically and market-wide. We are exposed to credit spread risk through our holdings of bonds and credit derivatives. In the trading portfolio, credit spread risk arises from market-making activity as well as through proprietary trading in our credit derivatives trading unit.

Foreign exchange rate risk
Foreign exchange rate risk is the potential adverse impact on our earnings and economic value due to currency rate movements. We are exposed to foreign exchange rate risk in both the spot and forward foreign exchange markets and in the derivative market.

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

Trading activities
Market risks associated with trading activities are a result of market-making, positioning and sales and arbitrage activities in the interest rate, foreign exchange and equity markets. Our trading operation primarily acts as a market-maker or jobber, executing transactions that meet the financial requirements of our clients and transferring the market risks to the broad financial market. We also act as principal and take market risk proprietary positions within the authorizations granted by our Board of Directors.

We recently completed a major upgrade of our enterprise market risk management system as part of our continuous renewal process to implement best practices and enhance our risk oversight capabilities. This represents a significant milestone in our ability to assess potential for loss using modeling techniques across all risk classes in a consistent and timely manner. In November 2002, we received regulatory approval to use an internal models approach for the regulatory capital requirement on specific risk of investment grade debt portfolios.

Value-At-Risk
Market risks associated with trading activities are managed primarily through the use of 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 we would experience in our trading portfolios from an adverse one-day movement in market

rates and prices. Our 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. We use a historical simulation of the previous 500 trading day scenarios to determine VAR for our trading portfolio. The graph on page 56A shows the daily net trading revenue compared to the global trading VAR amounts for the year ended October 31, 2002. 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 2002, we experienced only four days of net trading losses, and we did not experience a single day with net trading losses in excess of the VAR estimate for that day.

Table 23 on the following page shows the year-end, high, average and low VAR by major risk category for our combined trading activities for the years ended October 31, 2002 and 2001. The table also shows our 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 our trading portfolio. As the table illustrates, the average VAR in 2002 was $11 million, the same as the average VAR in 2001. An increase in the interest rate VAR (due to the inclusion of credit spread risk within the VAR model) was offset by a reduction in risk within the equity trading portfolio.

TABLE 23 Market risk measures — Trading activities (1)

($ millions)	2002				2001			
	Year-end	High	Average	Low	Year-end	High	Average	Low
Global VAR by major risk category								
Equity	**$ 7**	**$12**	**$ 8**	**$6**	$ 8	$16	$ 10	$6
Foreign exchange and commodity	**2**	**9**	**3**	**1**	2	6	3	1
Interest rate	**11**	**14**	**6**	**2**	3	9	4	2
Global VAR (2)	**$ 13**	**$18**	**$ 11**	**$7**	$ 8	$18	$ 11	$6

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

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

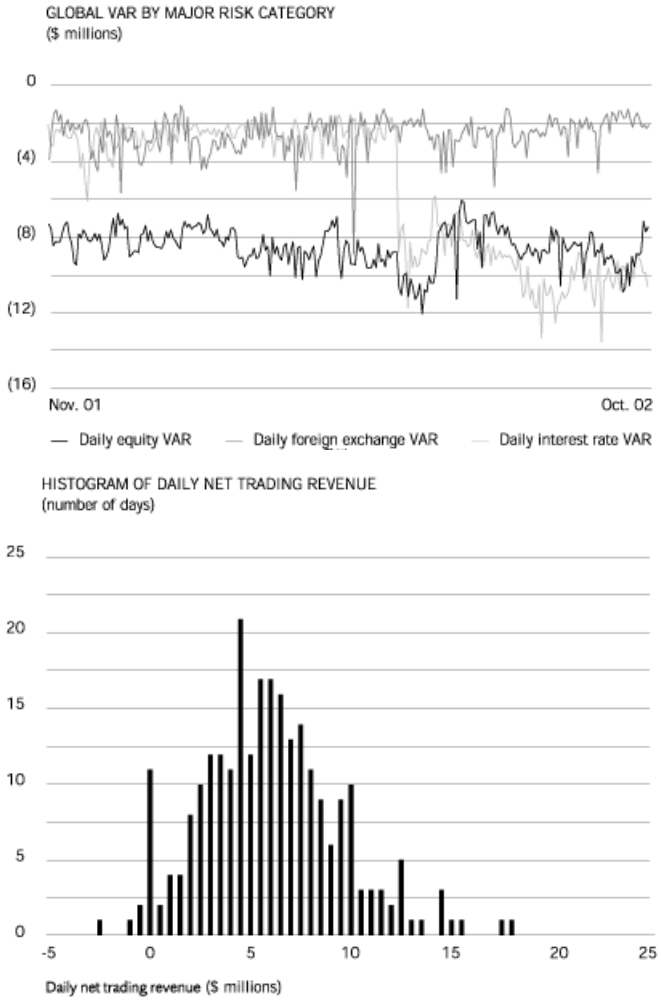
The Group Risk Management function, which is independent of the trading operations, is responsible for the daily measuring of global trading risk exposures. The function uses our VAR methodology to compare actual exposures to the limits established, to assess global risk-return trends and to alert senior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

We recognize 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, we implement 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.

Back-testing
Back-testing against hypothetical profit and loss is used to monitor the statistical validity of VAR models. Hypothetical profit and loss is calculated by determining the impact of the actual one-day change in market rate or price movements on a given portfolio held constant for one day. Back-testing is performed daily across all trading portfolios. The results are submitted to OSFI on a quarterly basis. In fiscal 2002, there were two instances of the hypothetical net profit and loss exceeding the VAR. This is within the expected statistical range and supports the validity of the VAR model.

Stress testing
We also perform analysis on the potential trading losses due to stress events as a supplementary control on our 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 our portfolio.





Liquidity risk

The objective of liquidity management is to ensure we have the ability to generate or obtain sufficient cash or its equivalents on a timely and cost-effective basis to meet our commitments as they fall due. The management of liquidity risk is crucial to protecting our capital, maintaining market confidence and ensuring that we can expand into profitable business opportunities.

Liquidity risk is managed dynamically, exposures are continually measured, monitored and appropriately mitigated. We have developed and implemented a comprehensive liquidity management framework comprising policies, procedures, methodologies and measurements.

The Group Risk Committee and the Asset/Liability Committee provide guidance and oversight to our liquidity risk management program with the Audit Committee of the board approving our liquidity management framework and significant related policies. Corporate Treasury has global responsibility for developing liquidity management policies, strategies and contingency plans and for recommending and monitoring limits and coordinating subsidiary activities.

We have a Liquidity Crisis Team, composed of a cross-section of our senior executives. This team is responsible for the development, maintenance and success of our liquidity contingency plan. This plan would be activated in the event of a general market disruption or adverse economic developments that could destabilize our ability to meet obligations. This team meets regularly to review potential crisis scenarios and to update related action plans. Contingent liquidity exposures are identified and provisions are made to minimize possible damage through maintenance of a pool of unencumbered, high-quality assets. These assets are marketable and can be immediately sold or pledged for secured borrowing and represent a dedicated and reliable source of emergency funding. In addition, a segregated portfolio of eligible securities is continuously available to support our participation in Canadian payment and settlement systems. For further information on liquidity see the Liquidity management section on page 62A.

Insurance risk
Insurance risk includes product design and pricing risk, claims administration risk, underwriting risk and liability risk.

Product design and pricing risk
The process of designing and pricing products includes the estimation of many factors including future investment yields, mortality, morbidity, claims experience, expenses, policy lapse rates and taxes. Product design and pricing risk is the risk that actual experience will not match the assumptions made at the time pricing was determined and to the extent they differ, financial gains or losses will occur.

This risk is managed through detailed experience studies to support pricing assumptions and independent verification of scenario testing by our actuaries. In addition a portion of the policy benefit liabilities held on the balance sheet provides for misestimation and deterioration of assumptions from those assumed in the pricing. Risk is also mitigated through reinsurance, primarily for life insurance mortality and property and casualty catastrophe risks.

Claims administration risk
Claims administration risk is the exposure to higher than expected claims due to administrative practices in settling claims. Policies and procedures are in place that are designed to ensure that trained staff properly handle claims. There are approval limits in place to ensure that large dollar claims are handled and reviewed by experienced staff.

Underwriting risk
Underwriting risk is the exposure to financial losses resulting from the inappropriate selection and acceptance of the risks to be insured. Establishing policy retention limits that vary by market and geographic location mitigates exposure to large claims.

Liability risk
Liability risk exists when the attributes of a specific type of risk are misunderstood and improperly quantified and the liabilities established for this type of risk are inadequate. Actuaries review the assumptions used in the calculation of policy benefit liabilities on a quarterly basis. Provision for adverse deviations are included in the policy benefit liabilities to mitigate this risk.

Operational risk
Operational risk is the risk of direct or indirect loss resulting from inadequate or failed technology, human performance, processes or external events.

We endeavour to minimize operational losses by ensuring that effective infrastructure, controls, systems, and individuals are in place throughout our organization. We employ dedicated professionals who are proactive in developing and implementing new methodologies for the identification, assessment and management of operational risk.

We have developed and are currently implementing two new processes aimed at monitoring and mitigating operational risks in the organization.

Risk and control self-assessment (RCSA)
RCSA is a formal process of proactively identifying, documenting, assessing and managing our operational risks. Each business segment and functional unit is divided into its component activities, which become entities to be assessed. Each entity completes a workshop-based, self-assessment to determine their key risks, mitigating controls, the potential impact and likelihood of a problem occurring and the acceptability of the residual risk after existing controls are considered.

Where residual risk is deemed unacceptable, the group will agree on an action plan and timeline. The findings of the various RCSAs conducted are documented, aggregated, analyzed and reported on a group-wide basis.

Loss event database (LED)
LED refers to a centralized database aimed at capturing information about operational losses. The losses tracked are mapped to the entities identified in the RCSA process.

Information such as the frequency, severity and nature of operational losses are captured. This data capture will allow analysis at the business segment and enterprise level. This will lead to a better understanding of the root causes of operational losses and improved risk mitigation strategies.

Ongoing development
Research and development efforts in the areas of quantification methodologies and key risk indicators will continue as we strive to stay at the forefront of risk management best practices.

FINANCIAL PRIORITY: BALANCE SHEET AND CAPITAL MANAGEMENT

Highlights

- Consumer loans up 5%
- Deposits up 4%
- Internally generated capital of $1.6 billion
- Capital ratios strengthened further
- Common share repurchases of $764 million
- Redeemed US $200 million of Series I and $150 million of Series E preferred shares
- Redeemed $400 million and issued US $400 million of subordinated debentures

Total assets were $377 billion at October 31, 2002, up $17.7 billion or 5% from October 31, 2001.

Compared to October 31, 2001, securities were up $13.3 billion or 17% and cash resources up $3.8 billion or 22%. The growth in securities partially reflected higher levels of activity in our global equity derivatives business, which holds long and short positions in equity securities.

Total loans were up $.1 billion or .1% from October 31, 2001, with the acquisition of Eagle Bancshares in July 2002, contributing $1.1 billion in loans and the acquisition of the private banking business of Barclays in June 2002, contributing $.6 billion in loans. Consumer loans (residential mortgage, personal and credit card loans) were up $5.5 billion or 5%. Residential mortgages were up $5.4 billion or 8% (net of $3.7 billion of mortgage securitizations during the year) and personal loans were down $.5 billion or 2%. Credit card balances increased $.6 billion or 15%, largely reflecting the maturity of $.4 billion of credit card securitization term notes during the year. Business and government loans were down $5.4 billion or 8%, largely reflecting planned reductions in the Canadian and U.S. corporate loan portfolios to enhance the quality of the business loan portfolio.

The $.5 billion increase in Other assets was largely driven by a $3.0 billion increase in derivative-related amounts. This increase in derivative-related amounts was largely offset by a $1.9 billion decrease in acceptances. Other — Other assets of $11.1 billion includes $805 million (US$517 million) of receivables due from Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank), relating to a derivative contract that is the subject of litigation with Rabobank. While the outcome of any litigation cannot be predicted with certainty, we expect to recover this amount in its entirety and accordingly have not recorded any provision for loss (for further information see Note 18 on page 90A).

Total deposits were $243 billion, up $10.0 billion or 4% from October 31, 2001. Interest-bearing deposits were up $8.2 billion and non-interest-bearing deposits up $1.8 billion. Personal deposits were up $.5 billion, business and government deposits were up $12.4 billion or 12% and bank deposits were down $2.9 billion or 12%. Further details on deposits are provided in Note 10 on page 82A.

The fair value of loans and deposits differs from the respective book value due to changes in the levels of interest rates and changes in credit status. The estimated fair value of loans due from clients exceeded book values by $2.3 billion at October 31, 2002 and $4.2 billion at October 31, 2001. The estimated fair value of deposits owed to clients exceeded book values by $1.7 billion at October 31, 2002, and $2.7 billion at October 31, 2001. The net of the fair value excess of loans due from clients and the fair value excess of deposits due to clients was $.6 billion at October 31, 2002, as shown in Note 21 on page 94A of our consolidated financial statements. The estimated fair value of loans and deposits were in excess of book values largely due to a decline in interest rates.

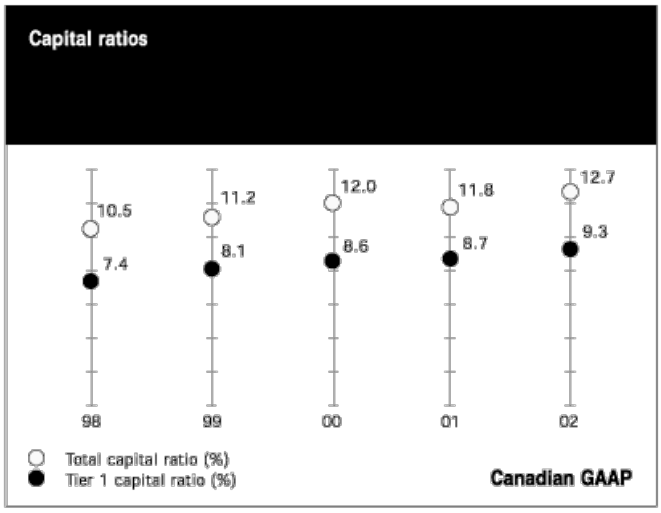
RBC Capital Trust, a closed-end trust, has a total of $1.4 billion of transferable trust units (RBC TruCS) outstanding. RBC TruCS are reported as non-controlling interest in subsidiaries on the consolidated balance sheet and are included in Tier 1 capital under guidelines issued by OSFI.

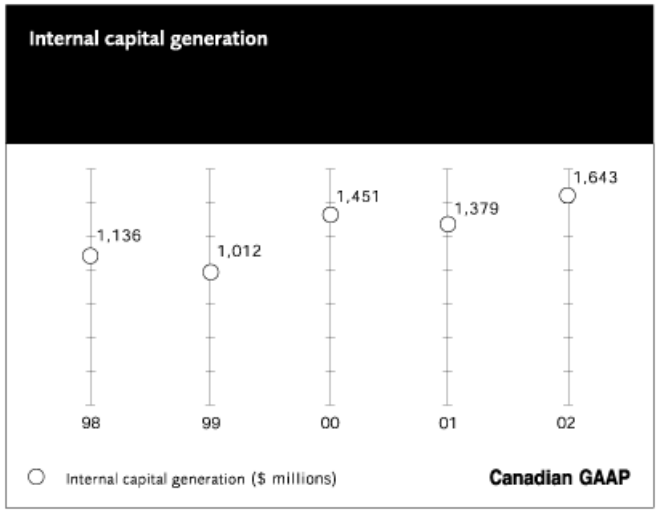
Total balance sheet capital, which includes shareholders' equity and subordinated debentures, was $25.4 billion at October 31, 2002, up $.7 billion or 3% from a year ago. The most significant factor behind the increase in capital over 2001 was internal capital generation of $1.6 billion, partially offset by net capital redemptions and net share repurchases of $.9 billion during 2002.

We fund the pension plans in accordance with regulatory requirements, which generally require funding when there is a deficit on a funding basis. Different assumptions and methods are prescribed for regulatory funding purposes versus accounting purposes. Our pension plans are in a surplus position for regulatory funding purposes. Note 15 on page 87A describes the funding position for accounting purposes.

Capital management

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


Capital ratios
10.5
7.4
11.2
8.1
12.0
8.6
11.8
8.7
12.7
9.3
98
99
00
01
02
Total capital ratio (%)
Tier 1 capital ratio (%)
Canadian GAAP


Internal capital generation
1,136
1,012
1,451
1,379
1,643
98
99
00
01
02
Internal capital generation ($ millions)
Canadian GAAP

We are committed to maintaining strong capital ratios through internal capital generation, the issuance of capital instruments when appropriate, and controlled growth in risk-adjusted assets. We were able to achieve strong levels of internal capital generation despite weaker capital market conditions during the past year. The market environment and planned reductions of corporate loan exposures also contributed to slower growth in risk-adjusted assets, enabling us to continue repurchasing shares and redeeming some of our outstanding capital instruments. Our debt ratings continue to enhance our ability to raise capital at competitive prices.

Capital management activity
In fiscal 2002, we repurchased 14.3 million common shares, of which 4.5 million shares were repurchased for $229 million under a normal course issuer bid that expired in June 2002, and 9.8 million shares were repurchased for $513 million under a normal course issuer bid that allows for the repurchase of up to 20 million common shares, representing approximately 3% of outstanding common shares, between June 24, 2002 and June 23, 2003. During the fourth quarter of 2001, we entered into an agreement with an independent third party to execute an accelerated repurchase of six million common shares. This agreement resulted in an additional repurchase cost of $22 million this year. In total, we spent $764 million in connection with our share repurchases during 2002.

In November 2001, we redeemed US$200 million of First Preferred Shares Series I and, in October 2002, redeemed $150 million of First Preferred Shares Series E.

In November 2001, we issued US$400 million of subordinated debentures through our European Medium Term Note Programme. In September 2002, we redeemed $400 million of subordinated debentures.

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). Regulatory capital is allocated into two tiers. Tier 1 capital comprises the more permanent components of capital. The components of Tier 1 and Tier 2 capital are shown in Table 24 below.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets based on Canadian GAAP financial information. Risk-adjusted assets, as shown in Table 25 on page 60A, are determined by applying OSFI prescribed risk weights to balance sheet assets and off-balance sheet financial instruments according to the credit risk of the counterparty. Risk-adjusted assets also include an amount for the market risk exposure associated with our trading portfolio.

Our policy is to remain well capitalized so as to provide a safety net for the variety of risks to which we are exposed to in the conduct of our 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 7% and a Total capital ratio of 10%. As at October 31, 2002, our Tier 1 and Total capital ratios were 9.3% and 12.7%, respectively, compared to 8.7% and 11.8% at October 31, 2001. We maintained capital ratios that exceeded our medium-term goals of 8.0% for the Tier 1 ratio and 11-12% for the Total capital ratio. Effective November 1, 2002, we have raised our medium-term Tier 1 capital ratio goal to 8-8.5% from 8%. Our 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 24 below.

Pending developments
In 1999, BIS issued a proposal for a new capital adequacy framework to replace the previous Capital Accord of 1988, under which we are currently regulated. This proposal continues to be at the discussion phase. Implementation of the final proposal is not likely to occur prior to fiscal 2006.

TABLE 24 Capital ratios (1)

($ millions, except percentage amounts)	2002	2001	2000
Tier 1 capital			
Common equity	**$ 17,238**	$ 16,141	$ 11,504
Non-cumulative preferred shares	**1,545**	2,024	2,037
Non-controlling interest in subsidiaries			
RBC TruCS	**1,400**	1,400	650
Other	**29**	28	23
Goodwill	**(4,832)**	(4,742)	(647)
	15,380	14,851	13,567
Tier 2 capital			
Permanent subordinated debentures	**467**	477	457
Other subordinated debentures (2)	**6,147**	5,935	5,138
General allowance (3)	**1,420**	1,410	1,188
Non-controlling interest in subsidiaries	**—**	—	1
	8,034	7,822	6,784
Investment in insurance subsidiaries	**(2,014)**	(2,107)	(960)
Other substantial investments	**(368)**	(387)	(342)
First loss facility	**(20)**	(8)	(5)
Total capital	**$ 21,012**	$ 20,171	$ 19,044

Risk-adjusted Assets	**$165,559**	$171,047	$158,364
Capital Ratios (4)			
Common equity to risk-adjusted assets	**10.4%**	9.4%	7.3%
Tier 1 capital to risk-adjusted assets	**9.3%**	8.7%	8.6%
Total capital to risk-adjusted assets	**12.7%**	11.8%	12.0%
Assets-to-capital multiple (5)	**17.3**	17.2	15.3
U.S. Basis (4), (6)			
Tier 1 capital to risk-adjusted assets	**8.5%**	8.1%	7.8%
Total capital to risk-adjusted assets	**11.9%**	11.2%	11.3%
Equity to assets (7)	**4.9%**	5.3%	4.5%

(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, we 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, we redeemed US$200 million of Non-cumulative First Preferred Shares Series I, which reduced Tier 1 capital by the same amount. On November 8, 2001, we issued US$400 million of subordinated debentures, which increased Total capital by the same amount. Had these transactions taken place as at October 31, 2001, the 2001 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 prescribed 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.

TABLE 25 Risk-adjusted assets (1)

($ millions, except percentage amounts)	Balance sheet amount	Weighted average of risk weights (2)	Risk-adjusted balance 2002	Risk-adjusted balance 2001
Balance sheet assets				
Cash resources	$ 21,323	11%	**$ 2,284**	$ 1,515
Securities				
Issued or guaranteed by Canadian or other OECD governments	27,712	0%	**36**	—
Other	66,088	11%	**7,137**	7,341
Residential mortgages (3)				
Insured	33,849	1%	**379**	383
Conventional	38,950	52%	**20,168**	18,511
Other loans and acceptances (3)				
Issued or guaranteed by Canadian or other OECD governments	18,448	17%	**3,098**	1,810
Other	121,893	74%	**89,836**	97,553
Other assets	48,693	12%	**5,692**	6,114
	$ 376,956		**$128,630**	$133,227

	Contract amount	Credit conversion factor	Credit equivalent amount			
Off-Balance sheet financial instruments						
Credit instruments						
Guarantees and standby letters of credit						
Financial	$ 10,393	100%	$10,393	82%	**$ 8,560**	$ 8,629
Non-financial	3,217	50%	1,609	100%	**1,609**	1,422
Documentary and commercial letters of credit	772	20%	154	97%	**150**	148
Securities lending	23,967	100%	23,967	3%	**646**	393
Commitments to extend credit						
Original term to maturity of 1 year or less	40,931	0%	—	—	**—**	—
Original term to maturity of more than 1 year	34,115	50%	17,058	92%	**15,638**	18,821
Uncommitted amounts	45,978	0%	—	—	**—**	—
Note issuance/revolving underwriting facilities	23	50%	12	100%	**12**	66
	$159,396		$53,193		**$26,615**	$29,479

	Notional amount	Gross positive replacement cost (4)	Credit equivalent amount (5)			
Derivatives						
Interest rate contracts						
Forward rate agreements	$ 198,845	$ 178	$ 299	21%	**$ 64**	$ 114
Swaps	862,264	19,608	24,357	26%	**6,323**	5,617
Options purchased	55,293	563	914	28%	**258**	123
	1,116,402	20,349	25,570		**6,645**	5,854
Foreign exchange contracts						
Forward contracts	544,719	6,802	13,049	28%	**3,685**	3,881
Swaps	84,055	1,781	6,341	23%	**1,445**	1,261
Options purchased	56,204	809	1,491	29%	**439**	441
	684,978	9,392	20,881		**5,569**	5,583
Credit derivatives (6)	52,151	861	2,963	29%	**858**	369
Other contracts (7)	13,126	849	1,701	31%	**529**	617
Total derivatives before netting	$1,866,657	31,451	51,115		**13,601**	12,423
Impact of master netting agreements		(20,861)	(26,930)		**(7,132)**	(6,339)
Total derivatives after netting		$ 10,590	24,185		**6,469**	6,084

Total off-balance sheet financial instruments	$ 77,378	**$ 33,084**	$	35,563
General market risk		**3,845**		2,257
Total risk-adjusted assets		**$165,559**	$	171,047

(1) Using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information.
(2) Represents the weighted average of counterparty risk weights within a particular 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, before factoring in the impact of master netting agreements. Exchange-traded instruments 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. The fair value of $194 million (2001 — $194 million) is excluded at October 31, 2002. Written options are excluded as they represent our obligations and as such do not attract credit risk.

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

(6) Comprises credit default swaps, total return swaps and credit default baskets.

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

Asset/liability management

Overview

Asset/liability management comprises the evaluation, monitoring and management of our non-trading portfolio, liquidity management and funding. It is important to note that liquidity and capital resources are likely to be affected by many of the same factors which are detailed in this section of Management's discussion and analysis, the Factors discussion on pages 23A to 24A and the Risk management discussion on pages 53A to 57A. Additionally, off-balance sheet financing arrangements are often integral to both liquidity and capital resources, and are discussed in detail on pages 64A to 65A of this section.

Non-trading portfolio

Traditional banking activities, such as deposit taking and lending, expose us to market risk, of which interest rate risk, as described on page 55A, is the largest component.

We actively manage the interest rate risk for the North American non-trading balance sheet and oversee all other non-trading units that have been delegated interest rate risk limits. We endeavour to adopt industry best practices and carry out the following functions:

Policy

The Conduct Review and Risk Policy Committee of the Board of Directors approves the global policies governing interest rate risk management. The policies define the acceptable limits within which risks to net interest income over a 12-month horizon and the economic value of equity are to be managed. These ranges are based on immediate and sustained +/- 200 basis points parallel shifts of the yield curve. The limit for net interest income risk is 6% of projected net interest income and for economic value of equity risk is 12% of projected common equity.

Interest rate funds transfer pricing

We use a funds transfer pricing mechanism to centralize interest rate risk within Corporate Treasury and to ensure an economic allocation of interest income to the various business units. Funds transfer pricing at the transaction level ensures that interest rate risk is appropriately transferred to Corporate Treasury for management. The funds transfer pricing rates are market-based and aligned with risk management principles. They are supported by empirical research into client behaviour and are an integral input to the retail business pricing decisions.

Applied research

We are dedicated to investigating best practices in instrument valuation, econometric modeling and new hedging techniques. These investigations range from evaluation of traditional asset/liability management processes to application of recent developments in quantitative methods to our processes.

We focus on developing retail product valuation models that incorporate consumer behaviour. These valuation models are typically derived through econometric estimation of consumer exercise of options embedded in retail products. The most significant embedded options are mortgage rate commitments and prepayment options. On the liability side of the balance sheet, we tend to focus on modeling administered rates and the sensitivity of liability balances to interest rate changes.

Risk measurement

We continue to make significant investment in new technology to facilitate measurement and timely management of our interest rate risk position. A range of static and dynamic scenarios is used every week to measure our risk position based on client rates as well as funds transfer pricing rates.

Static scenarios allow us to analyze our risk at a particular point in time under various interest rate assumptions. These assumptions comprise parallel shocks as well as twists to the current yield curve. Static scenarios are employed for assessing the economic value of equity risk as well as the net interest income risk. Dynamic scenarios simulate our interest income in response to various combinations of business and market factors. Business factors include assumptions about future pricing strategies and volume and mix of new business, whereas market factors include assumptions such as changes in interest rate levels and changes in the shapes of yield curves.

We measure our risk positions for the Canadian non-trading balance sheet every week and are capable of identifying the various sources of interest rate risk.

Interest rate risk management

Our goal is to manage interest rate risk of the non-trading balance sheet to a targeted level, on a continual basis. We modify the risk profile of the balance sheet through proactive hedging activity.

The interest rate risk can be disaggregated into linear risk and non-linear risk based on the varying responses of the balance sheet to different interest rate movements. The linear risk is primarily managed through interest rate swaps. The non-linear risk arises mainly from embedded options in our products that allow clients to modify the maturities of their loans or deposits. Examples are a client pre-paying a personal loan or a prospective client getting a committed rate on a new mortgage before the mortgage loan takes effect. Embedded options are modeled using assumptions based on empirical research and are managed by either purchasing options or by a dynamic hedging strategy.

The performance of interest rate risk management function within Corporate Treasury is benchmarked on a total return basis. A by-product of this benchmarking exercise is a methodology that controls model risk by continuously back-testing model assumptions against actual client behaviour.

Table 26 below presents the potential impacts of 100 and 200 basis point increases and decreases in interest rates on our economic value of equity and on current earnings on our non-trading portfolio. These measures are as of October 31, 2002, and are based on assumptions made by management and validated by empirical research. The methodology assumes that no further hedging is undertaken. We have 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, our interest rate risk profile has slightly faster re-pricing of assets than of liabilities with the duration of equity at about 2.5 years.

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

TABLE 26 Market risk measures — Non-trading activities (1)

($ millions)	2002		2001	
	Economic value of equity risk	Net interest income risk	Economic value of equity risk	Net interest income risk
100bp increase	**$ (309)**	**$ 104**	$ (390)	$ 96
100bp decrease	**145**	**(151)**	256	(108)
200bp increase	**$ (662)**	**$ 190**	$ (842)	$ 179
200bp decrease	**345**	**(327)**	466	(294)

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

Liquidity management

Our liquidity management framework is designed to ensure that reliable and cost-effective sources of cash are available to satisfy current and prospective commitments, both on and off-balance sheet. The primary goals of this framework are the preservation of a large base of core client deposits, ongoing access to diversified sources of wholesale funding and the maintenance of a dedicated pool of unencumbered marketable securities that provide ready access to cash.

The Corporate Treasury function has global responsibility for the development of liquidity management policies, strategies and contingency plans and for recommending and monitoring limits within this framework. Our principal regional trading and funding platforms provide transactional support for liquidity management policies and strategies. The Group Risk Management Committee and the Asset/Liability Committee share management oversight of liquidity management and receive regular reports detailing compliance with limits and guidelines. The Audit Committee of the Board of Directors approves our liquidity management framework and significant related policies and is informed on a periodic basis about our current and prospective liquidity condition. Additionally, we have a liquidity contingency plan in place, which is maintained and administered by the Liquidity Crisis Team. Subsidiaries are responsible for managing their own liquidity in compliance with policies, practices and governing regulatory requirements.

We measure and monitor our liquidity condition from structural, tactical and contingent perspectives. The assessment of our liquidity position based on these measures reflects management estimates and judgments pertaining to the behaviour of our clients and future market conditions.

Structural liquidity risk management

Existing balance sheet composition can create liquidity exposure due to mismatches in effective maturities between assets and liabilities. Structural liquidity risk management addresses this type of exposure, which is measured and monitored through ongoing stress testing of our balance sheet.

We recently adopted the cash capital model to assist in the evaluation of balance sheet liquidity and in the determination of the appropriate term structure of our debt financing. This methodology provides a comprehensive, formula-based approach for the assessment of balance sheet integrity and our ability to continue as a going concern during a prolonged liquidity event, such as an unexpected withdrawal of short-term funding. The application of this model entails assigning liquidity discounts or “haircuts” to our balance sheet assets based on our assessment of the cash-generating characteristics of each asset category in the context of a sustainable business model. The illiquid component of our balance sheet assets can be determined by this analysis. Liabilities are arrayed along a stability continuum, ranging from core to volatile, on the basis of both contractual and behavioural properties in order to identify the constant elements of our funding. This analysis of our balance sheet enables us to more accurately estimate our exposure to a protracted loss of unsecured funding and to quantify our longer-term financing requirements.

Tactical liquidity risk management

Tactical liquidity risk management addresses our normal day-to-day funding requirements and is managed by imposing limits on net funds outflows for specified 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, as required, to update assumptions and limits. Detailed reports on our principal short-term asset/liability mismatches are monitored on a daily basis to ensure compliance with the prudential limits established for overall group exposure and by major currency and geographic location. Corporate Treasury issues procedural directives to the individual units engaged in executing policy to ensure consistent application of cash flow management principles across the entire organization.

Contingent liquidity risk management

The liquidity contingency plan identifies comprehensive action plans that would be implemented in the event of general market disruptions or adverse economic developments that could jeopardize our ability to meet commitments. Four different market scenarios, of varying duration and severity, are addressed in the liquidity contingency plan to highlight potential liquidity exposures and requisite responses. The Liquidity Crisis Team, comprising senior individuals from business and functional units, meets regularly to review and update implementation plans and to consider the need for activation in view of developments in Canada and globally.

To address potential liquidity exposures identified by our scenario analyses, we maintain a pool of segregated and unencumbered marketable securities. These high-quality assets can be readily sold or pledged for secured borrowing and represent a dedicated and reliable source of emergency funding. In addition, we maintain a separate portfolio of eligible assets to support our participation in Canadian payment and settlement systems. Liquid assets and assets purchased under reverse repurchase agreements (before pledging as detailed below) totalled $154 billion or 41% of total assets at October 31, 2002, as compared to $136 billion or 38% respectively at October 31, 2001. Canadian dollar liquid assets are primarily marketable securities while a material portion of our foreign currency liquid assets are issued by highly rated foreign banks. As at October 31, 2002, $10 billion of assets had been pledged as collateral, unchanged from October 31, 2001. We have another $40 billion in obligations related to assets sold under repurchase agreements or securities sold short at October 31, 2002, compared to $37 billion at October 31, 2001. For further details, see Note 18 on page 91A.

Funding strategy

Diversification of funding sources is a crucial component of our overall liquidity management strategy since it expands funding flexibility, minimizes funding concentration and dependency and generally lowers financing costs. Core funding, comprising capital, longer-term liabilities and a diversified pool of personal and, to a lesser extent, commercial deposits, is the foundation of our strong structural liquidity position.

Credit ratings

Our ability to access unsecured funding markets and our financing costs in such markets are primarily dependent upon maintaining acceptable credit ratings, which in turn is largely determined by the quality of our earnings, the adequacy of our capital and the effectiveness of our risk management programs. While our estimates suggest that a minor downgrade would not materially influence our funding capacity or costs, we recognize the importance of avoiding such an event and are committed to actions that should reinforce existing external assessments of the

bank's financial strength. A series of downgrades could have an adverse impact on our funding capacity and on the results of our operations.

Deposit profile

Personal deposits remain the prime source of funding for our Canadian dollar balance sheet while most foreign currency deposits originate from unsecured, "wholesale" sources, including large corporate and institutional clients and foreign commercial and central banks. Our personal deposit franchise constitutes a principal source of predictable and dependable funding. Certain commercial and institutional client groups also maintain relational balances with relatively low volatility profiles, a portion of which are considered core funding for structural liquidity purposes. Relational balances are typically maintained by commercial and corporate clients to facilitate their daily operating requirements. In some businesses, collective balances are substantial and exhibit a high degree of relative stability. We promote wholesale funding diversity and regularly review sources of short-term funds to ensure maintenance of wide

diversification by provider, product and geographic origin. In addition, we maintain an ongoing presence in different funding markets, constantly monitoring market developments and trends in order to identify opportunities or risks and to take appropriate pre-emptive actions. For further details see Note 10 on page 83A.

Term funding sources

Long-term funding strategy is integrated with our current and estimated structural liquidity position as reflected in our cash capital position. Liquidity objectives, as well as market conditions, interest rates, credit spreads and desired financial structure, influence annual long-term funding activities, including currency mix and market concentration. Diversification into new markets and untapped investor segments is constantly evaluated against relative issuance costs. Our long-term funding sources are managed to minimize concentration by geographic location, investor segment, and currency and maturity profile. During fiscal 2002, we continued to expand our long-term funding base by issuing $2.6 billion of senior deposit notes in various currencies and markets. Total unsecured long-term funding outstanding at October 31, 2002, was $13.2 billion, compared with $12.6 billion at October 31, 2001.

We use asset securitization programs as an alternative source of funding, to provide liquidity and for asset/liability management purposes. In particular, $1.7 billion in new financing was provided during the year by the securitization and sale of government guaranteed residential mortgages (MBS). Our total outstanding MBS sold at year-end was $2.4 billion. In addition, $1.7 billion of our credit card receivables have been securitized through notes issued by a securitization SPE (see page 64A, Special purpose entities — securitization for more details).

Off-balance sheet

In the normal course of business, we engage in a variety of financial transactions that, under GAAP, are either not recorded on our balance sheet or are recorded on our balance sheet in amounts that differ from the full contract or notional amounts. These transactions involve, among other risks, varying degrees of market, credit and liquidity risk, which are discussed in the Risk management section on pages 53A to 57A. Off-balance sheet transactions are either proprietary or client transactions, and are generally undertaken for risk management, capital management and/or funding management purposes. The types of off-balance sheet activities we undertake include issuance of credit instruments and lease commitments, derivative financial instruments and transactions with SPEs. Each of these types of activities is discussed below.

Credit instruments

We provide credit instruments to our clients to help them meet their financing needs. Guarantees and standby letters of credit carry the same credit risk as loans and represent irrevocable assurances that we will make payments in the event that a client cannot meet its obligations to third parties. On behalf of clients, we also undertake written documentary and commercial letters of credit, authorizing a third party to draw drafts from us to a stipulated amount and typically having underlying shipments of goods as collateral. We make commitments to extend credit, which may represent unused portions of authorizations to extend credit in the form of loans, acceptances, guarantees and letters of credit. We have uncommitted amounts, which represent revocable offers by us to extend credit to a borrower, but not obligations to extend credit. We are also party to note issuance facilities (including revolving facilities), which represent underwriting agreements that enable a borrower to issue short-term debt securities. Table 27 below provides a detailed summary of our off-balance sheet credit instruments.

Lease commitments

We have made minimum future rental commitments for premises and equipment under long-term non-cancellable leases, which are detailed for each of the next five years and thereafter in Table 27 below. Our lease agreements do not contain any covenants that restrict our ability to pay dividends, engage in debt or equity financing transactions, or enter into additional lease agreements.

Derivative financial instruments

As a part of our institutional sales and trading activities, we act as counterparty to clients in transactions involving derivative financial instruments. We undertake this role to assist our clients in managing their exposure to various types of risk. We also engage in transactions involving derivative financial instruments with other counterparties to manage our exposure to interest rate, currency, credit and market risks (market risks are discussed on page 55A). All derivatives, except those for other than trading purposes, are recorded at fair value on our balance sheet (fair value assumptions are discussed on page 25A). Although derivative transactions are measured in terms of their notional amounts, these amounts are not recorded on our balance sheet, as the notional amounts serve as points of reference for calculating payments, and are not the actual amounts that are exchanged. Table 25 on page 60A details the notional amount, credit equivalent amount and risk-adjusted balances by derivative contract type. The table in Note 19 on pages 92A and 93A, details the notional amount of derivatives by reference to term to maturity and replacement cost, respectively.

To the extent that one or more of the derivative financial transactions we undertake involve amounts owing from third-party counterparties, we are exposed to counterparty credit risk (credit risk is discussed in more detail on page 54A). Total credit risk as represented by the fair value of all derivatives that have a positive market value amounted to $10.6 billion as at October 31, 2002, and is recorded at replacement cost on our balance sheet. Additionally, Notes 1 and 19 on pages 73A and 91A to 93A, respectively, provide more detail on the accounting for derivatives.

TABLE 27 Lease commitments and credit instruments

($ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Lease commitments	$ 364	$ 630	$ 470	$ 754	$ 2,218
Credit instruments					
Guarantees and standby letters of credit	4,159	6,247	1,526	1,678	13,610
Documentary and commercial letters of credit	378	236	118	40	772
Commitments to extend credit	44,832	10,624	4,233	15,357	75,046

Uncommitted amounts	814	41,121	2,835	1,208	45,978
	50,183	58,228	8,712	18,283	135,406
Total	$ 50,547	$ 58,858	$ 9,182	$ 19,037	$137,624

Special purpose entities

Special purpose entities (SPEs) are principally used to securitize financial and other assets in order to obtain access to funding, to mitigate credit risk and to manage capital. SPEs are an important part of the financial markets, providing market liquidity by facilitating investors' access to specific portfolios of assets and risks in a form that meets their investment criteria. We use SPEs to securitize a portion of our credit card receivables. We provide SPE repackaging services to clients who seek access to financial assets in a form different than what is conventionally available. We also act as an intermediary or agent for clients who want to use SPEs to securitize their own financial assets.

SPEs are typically set up for a single, discrete purpose, have a limited life and serve to legally isolate the financial assets held by the SPE from the selling organization. SPEs are not operating entities and usually have no employees. The typical SPE structure involves a company selling assets to the SPE. The SPE funds the purchase of those assets by issuing securities to investors in the form of certificates, commercial paper or other notes of indebtedness. The financial interests of investors in SPEs are usually limited to interests in the assets of the SPE, and to various forms of credit enhancement accompanying the SPE assets, which may include conditional access to a cash collateral account, overcollateralization in the form of excess assets in the SPE or a line of credit facility. Liquidity and credit facilities as well as interest rate and other swaps may be provided by financial institutions to address mismatches between the cash flows of the underlying assets and the indebtedness issued by the SPE.

We provide services to SPEs in a number of different capacities including administration of the SPEs and the underlying asset pools, as a trustee for SPEs' assets, as a liquidity or credit enhancement provider, or as a counterparty in transactions involving derivative financial instruments or as collateral manager.

We manage and monitor our direct involvement with SPEs through our SPE Risk Committee, which comprises representatives from functional areas including risk management, corporate treasury, finance, subsidiary governance office, law, taxation, subsidiary banking groups and human resources. This committee's key activities include formulating policies governing SPEs, reviewing new and unusual SPE transactions and monitoring the ongoing activities of SPEs.

The CICA is currently drafting new accounting standards on the consolidation of SPEs. Since these new standards are still being drafted their impact on our balance sheet is not quantifiable but could result in us consolidating certain assets and liabilities held in our SPEs.

Securitization of credit card receivables

We securitize some of our credit card receivables through an SPE. The SPE is funded through the issuance of senior and subordinated notes collateralized by the underlying credit card receivables. The primary economic purpose of this activity is to diversify our sources of funding and to enhance our liquidity position. Although these credit card receivables are no longer on our balance sheet, we maintain the client account and retain the relationship.

The transfer of the credit card receivables to the custodian of those assets is a sale from a legal perspective. In addition, our credit card securitization structure qualifies for sale treatment from an accounting perspective. Under AcG-12, the receivables are removed from our balance sheet resulting in a gain or loss reported in other income. Note 7 on page 81A provides information on our key securitization activities, including key assumptions. This SPE meets the AcG-12 criteria for a Qualifying SPE (QSPE) and, accordingly, as the transferor of the credit card receivables, we are precluded from consolidating this SPE.

We continue to service the credit card receivables sold to the QSPE. In addition, we perform an administrative role for the QSPE in which we are responsible for ensuring that the ongoing public filings of the QSPE are performed, as required, and that the investors in the QSPE's asset-backed securities receive interest and principal payments on a timely basis.

We provide first loss protection to the QSPE in two forms. Our interest in the excess spread from the QSPE is subordinate to the QSPE's obligation to the holders of its asset-backed securities. Excess spread is the residual net interest income after all other trust expenses have been paid. Therefore, our excess spread serves to absorb losses with respect to the credit card receivables before payments to the QSPE's noteholders are affected. Under AcG-12, the present value of excess spread of credit card receivables sold on or after April 1, 2001, is reported as a retained interest within investment account securities on our consolidated balance sheet. Whereas, the excess spread of credit receivables sold prior to April 1, 2001, is recognized in other income when received from the QSPE. In addition, we provide loans to the QSPE to pay up-front expenses. These loans rank subordinate to all notes issued by the QSPE.

At October 31, 2002, total credit card receivables securitized and held off-balance sheet amounted to $1.7 billion, compared to $2.1 billion at October 31, 2001. The carrying value of our retained interests held in securitized credit card receivables at October 31, 2002, was $9.1 million compared to $9.5 million in 2001, and amounts receivable under subordinated loan agreements were $5.2 million compared to $8.5 million in 2001.

Securitization of client financial assets

Within our global securitization group, our principal relationship with SPEs comes in the form of administering multi-seller asset-backed commercial paper conduit programs (multi-seller SPEs). We currently administer five multi-seller SPEs — three in Canada and two in the U.S. These five multi-seller SPEs have purchased financial assets from our clients totalling $20.6 billion. Under current accounting standards, the five multi-seller SPEs that we administer are not consolidated on our balance sheet.

We are involved in the multi-seller SPE markets because our clients value these transactions, they offer a growing source of revenue and they generate a favorable risk-adjusted return for us. Our clients primarily utilize multi-seller SPEs to diversify their financing sources and to reduce funding costs by leveraging the value of high-quality collateral.

The multi-seller SPEs purchase various financial assets from clients and finances those purchases by issuing highly rated asset-backed commercial paper. The multi-seller SPEs typically purchase the financial assets as part of a securitization transaction by our clients. In these situations, the sellers of the financial assets continue to service the respective assets and generally provide some amount of first-loss protection

on the assets. We do not maintain any ownership or retained interest in these multi-seller SPEs. Instead, we provide or retain certain services such as transaction structuring and administration as specified by the multi-seller SPE's program documents and based on rating agency criteria. In addition, we provide backstop liquidity facilities and partial credit enhancement to the multi-seller SPEs. We receive market-based fee revenue from such services, which is reported as other income. We also have no rights to, or control of, the assets owned by the multi-seller SPE.

Canadian GAAP Royal Bank of Canada

The table below summarizes the financial assets owned by the multi-seller SPEs at fiscal years ended October 31.

Asset class ($ millions)	2002	2001
Credit cards	**$ 4,671**	$ 3,785
Auto loans and leases	**3,615**	4,298
Equipment receivables	**2,509**	2,159
Trade receivables	**2,479**	2,094
Residential mortgages	**2,004**	1,682
Other loans	**1,275**	843
Dealer floor plan receivables	**1,208**	1,275
Consumer loans	**1,196**	1,114
Asset-backed securities	**926**	487
Other	**706**	579
	$20,589	$18,316

The commercial paper issued by each multi-seller SPE is in the SPE's own name with recourse to the financial assets owned by the multi-seller SPE. The multi-seller SPE commercial paper is non-recourse to us and non-recourse to the other multi-seller SPEs that we administer. Each multi-seller SPE is largely prohibited from issuing medium-term notes or other forms of indebtedness to finance the asset purchases. Consequently, each multi-seller SPE's commercial paper liabilities are generally equal to the assets owned by that multi-seller SPE. The small difference between each of the multi-seller SPE's assets and liabilities balances is mostly related to the discount or interest costs attributable to the commercial paper. As of October 31, 2002, the total face amount of commercial paper issued by the multi-seller SPE's equaled $20,589 million generating $20,534 million of cash proceeds with the difference between these amounts representing the commercial paper discount.

At fiscal years ended October 31, total commitments and amounts outstanding under liquidity and credit facilities were as shown in the following table:

Liquidity and credit facilities

	2002		2001	
($ millions)	Committed	Outstanding	Committed	Outstanding
Liquidity facilities	**$22,593**	**$ —**	$20,614	$ —
Credit facilities	**7,211**	**—**	3,856	—
	$29,804	**$ —**	$24,470	$ —

We provide backstop liquidity facilities to the multi-seller SPEs as an alternative source of financing in the event that such SPEs are unable to access commercial paper markets, or in limited circumstances, when pre-determined performance measures of the financial assets owned by the multi-seller SPEs are not met. The terms of the backstop liquidity facilities do not require us to advance money to the multi-seller SPEs in the event of bankruptcy or to purchase non-performing or defaulted assets. None of the backstop liquidity facilities that we have provided has ever been drawn upon.

The partial credit enhancement that we provide to the multi-seller SPEs is in place to protect commercial paper investors in the event that the credit enhancement supporting the asset pools proves to be insufficient to prevent a default of one or more of the asset pools. Each of the asset pools is structured to achieve a high investment grade credit profile through credit enhancement related to each transaction. As a result, we believe that the program credit enhancements that we provide to the multi-seller SPEs present a modest amount of credit risk.

The economic exposure that we assume when we provide backstop liquidity commitments and partial credit enhancement is contingent in nature. We manage these exposures within our risk management functions in the same manner that we manage other contingent and non-contingent risk exposures. Our risk management process considers the credit, liquidity and interest rate exposure related to each of the assets. The risk exposure of each of these components individually and taken as a whole is deemed to be acceptable. All transactions are reviewed by external rating agencies. The weighted average credit quality of the assets supported by our backstop liquidity and partial credit enhancement is among the highest quality rating levels based on our internal risk rating system, which is described on page 54A. The liquidity risk to us is deemed to be low based on the historical performance and high credit quality of the multi-seller SPEs' assets. Interest rate exposure is deemed to be low and is generally managed at the transaction level by passing on the funding cost variability to the securitization structures. Corporate Treasury scrutinizes contingent balance sheet risk, in effect monitoring the risk of drawdown under any of the credit facilities.

Creation of investment products

We use repackaging SPEs to create unique credit products to meet the needs of investors with specific requirements. As part of this process, we may enter into derivative contracts with these SPEs in order to convert various risk factors such as yield, currency or credit risk of underlying assets to meet the needs of our clients. In this role as derivative counterparty to the SPE, we assume the associated counterparty credit risk of the SPE. In order to enter into these transactions we establish an internal risk rating of the SPE and provide ongoing risk assessment and monitoring of the SPE's credit risk. As with all counterparty credit exposures, these exposures are put in place and reviewed pursuant to our normal risk management process in order to effectively manage and monitor this credit risk profile.

These SPEs often issue notes. Those notes may also be rated by external rating agencies, as well as listed on a stock exchange and are generally traded via recognized bond clearing systems. While the majority of the notes that are created in repackagings are expected to be sold on a 'buy & hold' basis, we may on occasion act as market-maker. We do not, however, provide any repackaging SPE with any guarantees or other similar support commitments. There are many functions required to create a repackaged product. We fulfill some of these functions and independent third parties or specialist service providers fulfill the remainder. Currently we act as sole arranger and swap provider for SPEs where we are involved, and in most cases as paying and issuing agent as well.

Asset management

We act as collateral manager for several collateralized debt obligation (CDO) SPEs, which invest in leveraged bank-initiated term loans, high-yield bonds and mezzanine corporate debt. As collateral manager, we are engaged by the CDO SPE, pursuant to a Collateral Management Agreement, to advise the SPE on the purchase and sale of collateral assets it holds. For these advisory services, we are paid a pre-determined market-based fee, which is a percentage of assets held by the SPE.

The notional amount of the CDOs we managed at the end of fiscal 2002 was US$1.6 billion (2001 — US$1.3 billion). Although we have a nominal investment of US$9.5 million in the "first-loss" tranche of a US$300 million CDO, we provide no liquidity or credit support to these SPEs beyond this investment. The CDOs we manage may from time-to-time purchase collateral assets originated by us or other affiliates. The program documents covering the formation and operation of the individual CDOs provide strict guidelines for the purchase of such assets.

We recognize fee income from collateral management services and, where indicated, interest income from investments in individual CDOs.

2001 compared to 2000

The following discussion and analysis provides a comparison of our results of operations for the years ended October 31, 2001 and 2000. This discussion should be read in conjunction with the consolidated financial statements and related Notes on pages 67A to 97A. 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

Net income from RBC Banking increased 10% to $1,181 million in 2001 from $1,078 million in 2000. ROE decreased 280 basis points to 16.9%.

Net income from RBC Insurance was up 1% to $133 million in 2001, reflecting acquisitions. ROE decreased from 49% to 15% due to higher allocation of capital in light of recent acquisitions.

Net income from RBC Investments was up 23% from 2000 to $513 million. ROE declined by 2,100 basis points to 27.2% due to higher allocation of capital as a result of recent acquisitions.

Net income from RBC Capital Markets decreased 34% to $336 million, reflecting a large increase in the provision for credit losses. ROE declined by 1,180 basis points to 9.3%, reflecting lower net income and the higher allocation of capital for recent acquisitions.

Net income from RBC Global Services was up 42% to $263 million reflecting the growth from new business and value-added services added in the investor services business. ROE increased 940 basis points to 48.9%.

Other segment's net income improved to $(15) million from $(45) million in 2000. ROE increased 10 basis points to (2.8)%.

Net interest income

Net interest income increased 23% to $6.5 billion in 2001 from $5.3 billion in 2000 partially due to the acquisition of Centura Banks, in June 2001 which added more interest-bearing assets and liabilities to the balance sheet.

Other income

Other income increased 22% to $8.2 billion in 2001, accounting for 56% of total revenue.

Non-interest expense

Non-interest expense increased 29% to $9.8 billion, partially reflecting the contribution of expenses from acquisitions and an increase of good-will amortization expenses associated with these acquisitions.

Taxes

Our income taxes for 2001 were $1.3 billion, for an effective income tax rate of 34.7%. Income taxes were $1.4 billion in 2000, reflecting an effective income tax rate was 38.6%.

Provision for credit losses

The provision for credit losses increased 62% to $1,119 million in 2001 from $691 million in 2000, largely reflecting increases in business and government provisions for credit losses. The total allowance for loan losses was $2.3 billion or 1.1% of total loans, acceptances and reverse repurchase agreements up from 1.0% in 2000.

Quarterly financial information

Selected financial information for the eight most recently completed quarters is shown on page 102A.

Consolidated financial statements

Management's responsibility for financial reporting

The accompanying consolidated financial statements of Royal Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments. These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada. Financial information appearing throughout this Annual Report is consistent with these consolidated financial statements. Management has also prepared consolidated financial statements for Royal Bank of Canada in accordance with United States generally accepted accounting principles, and these consolidated financial statements have also been provided to shareholders.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which ensures that the bank and its employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of the bank's operations.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the bank. This Committee reviews the consolidated financial statements of the bank and recommends them to the board for approval. Other key responsibilities of the Audit Committee include reviewing the bank's existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. The bank's Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

At least once a year, the Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of the bank as deemed necessary to ensure that the provisions of the *Bank Act*, having reference to the safety of the depositors and shareholders of the bank, are being duly observed and that the bank is in sound financial condition.

Deloitte & Touche LLP and PricewaterhouseCoopers LLP, independent auditors appointed by the shareholders of the bank upon the recommendation of the Audit Committee, have performed an independent audit of the consolidated financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Gordon M. Nixon
President & Chief Executive Officer

Peter W. Currie
Vice-Chairman & Chief Financial Officer

Toronto, November 19, 2002

Auditors' report

To the shareholders of Royal Bank of Canada

We have audited the consolidated balance sheet of Royal Bank of Canada as at October 31, 2002 and 2001, and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended October 31, 2002. These consolidated financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the bank as at October 31, 2002 and 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2002, in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

We also reported separately on November 19, 2002, to the shareholders of the bank on our audit, conducted in accordance with Canadian generally accepted auditing standards, where we expressed an opinion without reservation on the October 31, 2002 and 2001, consolidated financial statements, prepared in accordance with United States generally accepted accounting principles.

Deloitte & Touche LLP
PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, November 19, 2002

Consolidated balance sheet

As at October 31 ($ millions)	2002	2001
Assets		
Cash resources		
Cash and due from banks	**$ 2,534**	$ 1,792
Interest-bearing deposits with banks	**18,789**	15,743
	21,323	17,535
Securities		
Trading account (pledged — $6,558 and $4,222)	**68,328**	58,192
Investment account	**25,078**	21,877
Loan substitute	**394**	438
	93,800	80,507
Assets purchased under reverse repurchase agreements	**35,831**	35,870
Loans		
Residential mortgage	**72,840**	67,442
Personal	**31,956**	32,511
Credit card	**4,914**	4,283
Business and government	**61,751**	67,152
	171,461	171,388
Allowance for loan losses	**(2,203)**	(2,278)
	169,258	169,110
Other		
Customers' liability under acceptances	**8,051**	9,923
Derivative-related amounts	**30,258**	27,240
Premises and equipment	**1,653**	1,602
Goodwill	**5,004**	4,919
Other intangibles	**665**	619
Other assets	**11,113**	11,935
	56,744	56,238
	$376,956	$359,260
Liabilities and shareholders' equity		
Deposits		
Personal	**$101,892**	$101,381
Business and government	**119,591**	107,141
Bank	**22,003**	24,925
	243,486	233,447
Other		
Acceptances	**8,051**	9,923
Obligations related to securities sold short	**19,110**	16,443
Obligations related to assets sold under repurchase agreements	**21,109**	20,864
Derivative-related amounts	**32,137**	28,646
Other liabilities	**26,197**	23,780
	106,604	99,656
Subordinated debentures	**6,614**	6,513
Non-controlling interest in subsidiaries	**1,469**	1,479
Shareholders' equity		
Capital stock	**1,545**	2,024
Preferred Common (shares issued and outstanding -665,257,068 and 674,020,927)	**7,057**	6,973
Retained earnings	**10,181**	9,168
	18,783	18,165

	$376,956	$359,260

Gordon M. Nixon
President & Chief Executive Officer

Robert B. Peterson
Director

Canadian GAAP Royal Bank of Canada

Consolidated statement of income

For the year ended October 31 ($ millions)	2002	2001	2000
Interest income			
Loans	**$ 10,463**	$ 12,032	$ 11,538
Securities	**3,075**	3,281	2,669
Assets purchased under reverse repurchase agreements	**651**	1,163	1,078
Deposits with banks	**483**	831	824
	14,672	17,307	16,109
Interest expense			
Deposits	**5,709**	8,712	9,057
Other liabilities	**1,399**	1,668	1,429
Subordinated debentures	**406**	410	344
	7,514	10,790	10,830
Net interest income	**7,158**	6,517	5,279
Provision for credit losses	**1,065**	1,119	691
	6,093	5,398	4,588
Other income			
Capital market fees	**1,866**	1,523	1,538
Trading revenues	**1,766**	1,820	1,540
Investment management and custodial fees	**1,179**	1,096	860
Deposit and payment service charges	**1,041**	887	756
Mutual fund revenues	**723**	692	624
Card service revenues	**496**	458	420
Foreign exchange revenue, other than trading	**279**	312	299
Credit fees	**223**	237	212
Mortgage banking revenues	**222**	206	—
Insurance revenues	**204**	201	191
Securitization revenues	**174**	123	115
Loss on sale of securities	**(116)**	(128)	(11)
Gain from divestitures	**—**	445	—
Other	**505**	343	188
	8,562	8,215	6,732
Non-interest expense			
Human resources	**6,315**	5,723	4,651
Occupancy	**796**	724	570
Equipment	**820**	771	665
Communications	**801**	686	695
Professional fees	**419**	412	267
Amortization of goodwill	**—**	248	76
Amortization of other intangibles	**72**	36	11
Other	**1,197**	1,155	646
	10,420	9,755	7,581
Net income before income taxes	**4,235**	3,858	3,739
Income taxes	**1,365**	1,340	1,445
Net income before non-controlling interest	**2,870**	2,518	2,294
Non-controlling interest in net income of subsidiaries	**108**	107	20
Net income	**$ 2,762**	$ 2,411	$ 2,274
Preferred share dividends	**98**	135	134
Net income available to common shareholders	**$ 2,664**	$ 2,276	$ 2,140
Average number of common shares (in thousands)	**672,571**	641,516	606,389
Earnings per share (in dollars)	**$ 3.96**	$ 3.55	$ 3.53
Average number of diluted common shares (in thousands)	**678,120**	647,216	609,865
Diluted earnings per share (in dollars)	**$ 3.93**	$ 3.52	$ 3.51

Consolidated statement of changes in shareholders' equity

For the year ended October 31 ($ millions)	2002	2001	2000
Preferred shares			
Balance at beginning of year	**$ 2,024**	$ 2,037	$ 2,009
Issued	**—**	250	—
Redeemed for cancellation	**(468)**	(300)	—
Translation adjustment on shares denominated in foreign currency	**(11)**	37	28
Balance at end of year	**1,545**	2,024	2,037
Common shares			
Balance at beginning of year	**6,973**	3,076	3,065
Issued	**236**	4,009	109
Purchased for cancellation	**(152)**	(112)	(98)
Balance at end of year	**7,057**	6,973	3,076
Retained earnings			
Balance at beginning of year	**9,168**	8,428	7,541
Net income	**2,762**	2,411	2,274
Preferred share dividends	**(98)**	(135)	(134)
Common share dividends	**(1,022)**	(897)	(689)
Cumulative effect of initial adoption of Employee Future Benefits accounting standard, net of related income taxes	**—**	(221)	—
Premium paid on common shares purchased for cancellation	**(612)**	(397)	(562)
Issuance costs, net of related income taxes	**(1)**	(19)	(4)
Change in unrealized foreign currency translation gains and losses	**(59)**	473	(2)
Impact of hedging unrealized foreign currency translation gains and losses, net of related income taxes	**43**	(475)	4
Balance at end of year	**10,181**	9,168	8,428
Shareholders' equity at end of year	**$18,783**	$18,165	$13,541

Canadian GAAP Royal Bank of Canada

Consolidated statement of cash flows

For the year ended October 31 ($millions)	2002	2001	2000
Cash flows from operating activities			
Net income	**$ 2,762**	$ 2,411	$ 2,274
Adjustments to determine net cash provided by (used in) operating activities			
Provision for credit losses	**1,065**	1,119	691
Depreciation	**407**	389	370
Restructuring	**—**	91	—
Amortization of goodwill and other intangibles	**72**	284	87
Deferred income taxes	**98**	(165)	(193)
Gain on sale of premises and equipment	**(35)**	(42)	(4)
Gain on divestitures	**—**	(445)	—
Gain on loan securitizations	**(54)**	(29)	—
Loss on sale of investment account securities	**116**	128	11
Changes in operating assets and liabilities			
Net change in accrued interest receivable and payable	**(263)**	(142)	78
Current income taxes	**419**	(460)	(434)
Derivative-related assets	**(3,018)**	(8,076)	(4,004)
Derivative-related liabilities	**3,491**	10,070	3,355
Trading account securities	**(10,136)**	(11,836)	(12,493)
Obligations related to securities sold short	**2,667**	2,869	(4,466)
Other	**(614)**	(3,373)	399
Net cash used in operating activities	**(3,023)**	(7,207)	(14,329)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	**(3,046)**	(135)	5,125
Increase in loans, net of loan securitizations	**(3,087)**	(2,930)	(12,213)
Proceeds from loan securitizations	**1,691**	1,720	—
Proceeds from sale of investment account securities	**16,388**	12,503	10,947
Proceeds from maturity of investment account securities	**15,717**	14,021	16,769
Purchases of investment account securities	**(33,093)**	(27,494)	(24,453)
Decrease in loan substitute securities	**44**	27	70
Net acquisitions of premises and equipment	**(419)**	(370)	(281)
Net proceeds from sale of real estate	**—**	57	—
Change in assets purchased under reverse repurchase agreements	**39**	(17,474)	1,969
Net cash used in acquisition of subsidiaries	**(99)**	(3,120)	(323)
Net proceeds from divestitures	**—**	478	—
Net cash used in investing activities	**(5,865)**	(22,717)	(2,390)
Cash flows from financing activities			
Issue of RBC Trust Capital Securities (RBC TruCS)	**—**	750	650
Increase in deposits	**8,085**	19,225	14,882
Issue of subordinated debentures	**635**	1,025	1,200
Maturity of subordinated debentures	**(101)**	(42)	(20)
Redemption of subordinated debentures	**(400)**	(538)	—
Issue of preferred shares	**—**	250	—
Redemption of preferred shares for cancellation	**(468)**	(300)	—
Issuance costs	**(1)**	(19)	(4)
Issue of common shares	**168**	657	59
Purchase of common shares for cancellation	**(764)**	(509)	(660)
Payment of dividends	**(1,104)**	(972)	(791)
Change in obligations related to assets sold under repurchase agreements	**245**	11,629	(391)
Change in short-term borrowings of subsidiaries	**3,335**	(387)	281
Net cash provided by financing activities	**9,630**	30,769	15,206
Net change in cash and due from banks	**742**	845	(1,513)
Cash and due from banks at beginning of year	**1,792**	947	2,460
Cash and due from banks at end of year	**$ 2,534**	$ 1,792	$ 947
Supplemental disclosure of cash flow information			
Amount of interest paid in year	**$ 8,229**	$ 11,149	$ 10,698
Amount of income taxes paid in year	**$ 738**	$ 1,443	$ 2,007

NOTE 1 Significant accounting policies

Pursuant to the Bank Act, these consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Superintendent of Financial Institutions Canada. We have also prepared consolidated financial statements in accordance with United States GAAP and these have been provided to shareholders. Note 23 of the consolidated financial statements describes and reconciles the differences between Canadian and United States GAAP.

GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below:

Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. We have accounted for the acquisition of subsidiaries using the purchase method. The equity method is used to account for investments in associated corporations in which the bank has significant influence. These investments are reported in Other assets. Our share of earnings, and gains and losses realized on dispositions of these investments are included in Other income. The proportionate consolidation method is used to account for investments in which we exercise joint control, whereby our pro rata share of assets, liabilities, income and expenses are consolidated.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at average rates of exchange for the year.

Unrealized foreign currency translation gains and losses (net of hedging activities and related income taxes) on investments in foreign branches, subsidiaries and associated corporations where the functional currency is other than the Canadian dollar are recorded in Retained earnings. On disposal of such investments, the accumulated net translation gain or loss is included in Other income. Other foreign currency translation gains and losses (net of hedging activities) are included in Other income.

Securities

Securities are classified, based on management's intentions, as Trading account or Investment account.

Trading account securities, which are purchased for sale in the near term, are reported at estimated fair value. Obligations to deliver trading account securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realized and unrealized gains and losses on these securities are recorded as Trading revenues in Other income. Dividend and interest income accruing on Trading account securities is recorded in Interest income. Interest expense accruing on interest bearing securities sold short is recorded in Interest expense.

Investment account securities include securities that may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs. Investment account equity securities are carried at cost and investment account debt securities at amortized cost. Dividend and interest income is recorded in Interest income. Premiums and discounts on debt securities are amortized to Interest income using the effective yield method over the term to maturity of the related securities. Gains and losses realized on disposal of securities, which are calculated on an average cost basis, and write downs to reflect other than temporary impairment in value are included in Loss on sale of securities in Other income.

Loan substitute securities are client financings that have been structured as after tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities are accorded the accounting treatment applicable to loans and, if required, are reduced by an allowance for credit losses.

Assets purchased under reverse repurchase agreements and sold under repurchase agreements

We purchase securities under agreements to resell (reverse repurchase agreements) and sell securities under agreements to repurchase (repurchase agreements). Reverse repurchase agreements are treated as collateralized lending transactions and are carried on the Consolidated balance sheet at the amounts at which the securities were initially acquired. Repurchase agreements are treated as collateralized borrowing transactions and are carried on the Consolidated balance sheet at the amounts at which the securities were initially sold, plus accrued interest on interest bearing securities. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in Interest income and Interest expense, respectively.

Loans

Loans are stated net of an allowance for loan losses and unearned income, which comprises unearned interest and unamortized loan fees.

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest. Whenever a payment is 90 days past due, loans other than credit card balances and Canadian government guaranteed loans are classified as impaired unless they are fully secured or collection efforts are reasonably expected to result in repayment of debt. Credit card balances are written off when a payment is 180 days in arrears. Canadian government guaranteed loans are classified as impaired when the

loan is contractually 365 days in arrears. When a loan is identified as impaired, the accrual of interest is discontinued and any previously accrued but unpaid interest on the loan is charged to the Provision for credit losses. Interest received on impaired loans is credited to the Allowance for loan losses on that loan. Impaired loans are returned to performing status when all amounts including interest have been collected, all charges for loan impairment have been reversed and the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest.

When a loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In subsequent periods, recoveries of amounts previously written off and any increase in the carrying value of the loan is credited to the Provision for credit losses on the consolidated income statement. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal or interest, and payments are not 90 days past due.

Collateral is obtained if, based on an evaluation of the client's creditworthiness, it is considered necessary for the client's overall borrowing facility.

Assets acquired in respect of problem loans are recorded at the lower of their fair value or the carrying value of the loan at the date of transfer. Any excess of the carrying value of the loan over the fair value of the assets acquired is recognized by a charge to the provision for loan losses.

Fees that relate to such activities as originating, restructuring or renegotiating loans are deferred and recognized as Interest income over the expected term of such loans. Where there is reasonable expectation that a loan will result, commitment and standby fees are also recognized as Interest income over the expected term of the resulting loan. Otherwise, such fees are recorded as Other liabilities and amortized to Other income over the commitment or standby period.

Allowance for credit losses

The allowance for credit losses is maintained at a level that management considers adequate to absorb identified credit related losses in the portfolio as well as losses that have been incurred, but are not yet identifiable. The allowance relates primarily to loans but also to deposits with banks, derivatives, loan substitute securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by the Provision for credit losses, which is charged to income, and decreased by the amount of write offs, net of recoveries.

The allowance is determined based on management's identification and evaluation of problem accounts; estimated probable losses that exist on the remaining portfolio; and on other factors including the composition and quality of the portfolio, and changes in economic conditions.

Specific

Specific allowances are maintained to absorb losses on both specifically identified borrowers and other more homogeneous loans that have become impaired. The losses relating to identified large business and government debtors are estimated based on the present value of expected payments on an account by account basis. The losses relating to other portfolio type products, excluding credit cards, are based on net write off experience over an economic cycle. For credit cards, no specific allowance is maintained as balances are written off if no payment has been received after 180 days. Personal loans are generally written off at 150 days past due. Write offs for other loans are generally recorded when there is no realistic prospect of full recovery.

General allocated

The general allocated allowance represents the best estimate of probable losses within the portion of the portfolio that has not yet been specifically identified as impaired. This amount is established quarterly through the application of expected loss factors to outstanding and undrawn facilities. The general allocated allowance for large business and government loans and acceptances is based on the application of expected default and loss factors, determined by statistical loss migration analysis, delineated by loan type and rating. For more homogeneous portfolios, such as residential mortgages, small business loans, personal loans and credit cards, the determination of the general allocated allowance is done on a product portfolio basis. The losses are determined by the application of loss ratios determined through the analysis of loss migration and writeoff trends over an economic cycle, adjusted to reflect changes in the product offerings and credit quality of the pool.

General unallocated

The general unallocated allowance is based on management's assessment of probable, unidentified losses in the portfolio that have not been captured in the determination of the specific or general allocated allowances. This assessment evaluated quarterly includes consideration of general economic and business conditions and regulatory requirements affecting key lending operations, recent loan loss experience, and trends in credit quality and concentrations. This allowance also reflects model and estimation risks and does not represent future losses or serve as a substitute for other allowances.

Acceptances

Acceptances are short term negotiable instruments issued by our customers to third parties, which we guarantee. The potential liability under acceptances is reported as a liability in the Consolidated balance sheet. The recourse against the customer in the case of a call on these commitments is reported as a corresponding asset of the same amount in Other assets. Fees earned are reported in Other income.

Derivatives

Derivatives are used in sales and trading activities to provide clients with the ability to manage their market risk exposures. We also use derivatives to manage our exposures to interest, currency and other market risks. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements, foreign currency and interest rate options, and credit derivatives.

When used in sales and trading activities, the realized and unrealized gains and losses on derivatives are recognized in Other income. Market values are determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. A portion of the market value is deferred within Derivative related amounts in liabilities and amortized to income over the life of the instruments to cover credit risk and ongoing direct servicing costs. Unrealized gains and losses are generally reported on a gross basis as Derivative related amounts in assets and liabilities, except where we have both the legal right and intent to settle these amounts simultaneously in which case they are presented on a net basis. Margin requirements and premiums paid are also included in Derivative related amounts in assets, while premiums received are shown in Derivative related amounts in liabilities.

When we use derivatives to manage our exposures, the income or expense is recognized over the life of the transaction as an adjustment to interest income or expense. Where derivatives have been designated and function effectively as hedges, realized gains and losses are deferred and amortized over the life of hedged assets or liabilities as adjustments to Interest income or Interest expense.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight line basis over the estimated useful lives of the assets, which are 25 to 50 years for buildings, 3 to 10 years for computer equipment, 7 to 10 years for furniture, fixtures and other equipment, and lease term plus first option period for leasehold improvements. Gains and losses on disposal are recorded in Other income.

NOTE 1 Significant accounting policies (continued)

Business combinations, goodwill and other intangibles

Effective November 1, 2001, we adopted the Canadian Institute of Chartered Accountants (CICA) standards on *Goodwill and Other Intangible Assets and Business Combinations.*

The *Business Combinations* standard requires that all business combinations be accounted for using the purchase method. Identifiable intangible assets are recognized separately from goodwill and included in Other intangibles. Goodwill represents the excess of the price paid for the acquisition of subsidiaries over the fair value of the net assets acquired. Under the *Goodwill and Other Intangible Assets* standard, goodwill and indefinite life intangibles are no longer amortized but are subject to fair value impairment tests on at least an annual basis. Any impairment of goodwill or intangibles will be recognized as Non-interest expense in the period of impairment. Other intangibles with a finite life are amortized over their estimated useful lives and also tested for impairment.

Income taxes

We use the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book purposes compared with tax purposes. Accordingly, a deferred income tax asset or liability is determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expense are expected to be realized. Income taxes on the consolidated statement of income include the current and deferred portions of the expense. Income taxes applicable to items charged or credited to Retained earnings are netted with such items.

Net deferred income taxes accumulated as a result of temporary differences are included in Other assets. A valuation allowance is established to reduce deferred income tax assets to the amount expected to be realized. In addition, the consolidated statement of income contains items that are non-taxable or non-deductible for income tax purposes and, accordingly, cause the income tax provision to be different than what it would be if based on statutory rates.

Pensions and other postretirement benefits

We offer a number of benefit plans which provide pension and other benefits to qualified employees. These plans include statutory pension plans, supplemental pension plans, defined contribution plans and health, dental and life insurance plans.

We fund our statutory pension plans and health, dental and life insurance plans annually based on actuarially determined amounts needed to satisfy employee benefit entitlements under current pension regulations. These pension plans provide benefits based on years of service, contributions and average earnings at retirement.

Actuarial valuations are performed on a regular basis to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Investments held by the pension funds primarily comprise of equity securities, bonds and debentures. Pension fund assets are valued at fair value each year.

Pension benefit expense consists of the cost of employee pension benefits for the current year's service, interest cost on the liability, expected investment return on the market-related value of plan assets and the amortization of both unrecognized prior service costs and unrecognized net actuarial gains or losses. Amortization is charged over the expected average remaining service life of employee groups covered by the plan.

The cumulative excess of pension fund contributions over the amounts recorded as expenses is reported as a prepaid pension benefit cost in other assets. The cumulative excess of pension expense over pension fund contributions is reported as accrued pension benefit expense in Other liabilities. In addition, other post retirement benefits are also reported in Other liabilities.

Defined contribution plan costs are recognized in income for services rendered by employees during the period.

Assets under administration and assets under management

We administer and manage assets owned by clients that are not reflected on the Consolidated balance sheet. Asset management fees are earned for providing investment management services and mutual fund products. Asset administration fees are earned for providing trust, estate administration, custodial services and administration of assets securitized. Fees are recognized and reported in Other income as the services are provided.

Loan securitization

We periodically securitize loans by selling loans to independent special purpose entities or trusts that issue securities to investors. These transactions are accounted for as sales when we are deemed to have surrendered control over such assets and have received in exchange consideration other than beneficial interests in these transferred assets. We often retain interests in the securitized loans, such as interest-only strips or servicing rights, and in some cases cash reserve accounts. Gains on these transactions are recognized in Other income and are dependent in part on the previous carrying amount of the loans involved in the transfer, which is allocated between the loans sold and the retained interests, based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used, if available. When quotes are not available for retained interests, we generally determine fair value based on the present value of expected future cash flows using management's best estimates of key assumptions such as payment rates, excess spread, credit losses and discount rates commensurate with the risks involved.

Generally, the loans are transferred on a fully serviced basis. As a result, we recognize a servicing liability on the date of transfer and amortize this liability to income over the term of the transferred loans.

Retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that we would not recover substantially all of our recorded investment, are classified as Investment account securities.

Insurance operations

Earned premiums, fees, and changes in claims and policy benefit liabilities are included in Other income. Investments are included in Investment account securities and claims and policy benefit liabilities are included in Other liabilities. Investment income is included in Interest income and administrative expenses are included in Non-interest expense.

Premiums from long-duration contracts, primarily life insurance, are recognized as income when due. Premiums from short-duration contracts, primarily property and casualty, and fees for administrative services and investment type contracts are recognized over the related contract period.

Claims and policy benefit liabilities represent estimates for future insurance policy benefits. Liabilities for life insurance contracts are determined using the Canadian Asset Liability Method (CALM), which incorporates assumptions for mortality, morbidity, policy lapses and surrenders, investment yields, policy dividends, operating and policy maintenance expenses and provision for adverse deviations. These assumptions are updated to reflect the results of the latest empirical tests. Liabilities for property and casualty insurance include unearned premiums, representing the unexpired portion of premiums, and estimated provisions for reported and unreported claims incurred.

Realized gains and losses on disposal of investments that support life insurance liabilities are deferred and amortized to Other income over a maximum period of 20 years. The differences between the market value and adjusted carrying cost of equity securities and real estate investments are reduced annually by 15% and 10%, respectively.

Deferred acquisition costs for life insurance are implicitly recognized in claims and policy benefit liabilities by CALM. For property and casualty insurance these costs are classified as Other assets and amortized over the policy term.

Significant future accounting changes

Hedging relationships

In November 2001, the CICA issued Accounting Guideline 13, *Hedging Relationships* (AcG-13), whose effective date has been postponed by the CICA to fiscal years beginning on or after July 1, 2003. We are early adopting this guideline effective November 1, 2002.

AcG-13 establishes specific criteria for non-trading derivatives to qualify for hedge accounting. Where we intend to apply hedge accounting, a hedge relationship will be designated at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation will identify the specific asset or liability being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured. The derivative must be highly effective in offsetting either changes in the fair value or cash flows attributable to the risk being hedged, both at inception and over the life of the hedge. Where a non-trading derivative has been designated and functions effectively as a hedge, the existing accounting treatment will continue as described earlier in this note. This hedge accounting will be discontinued prospectively when the derivative ceases to qualify as an effective hedge, and the fair value of the derivative will be recognized on the balance sheet at that time. The amounts required to record the derivative at this fair value will be deferred and recognized in income as the hedged item affects net income. Subsequent changes in fair value will be recognized immediately in Other income until the derivative qualifies for hedge accounting again. The fair value at the time the derivative qualifies again will be recognized in income as the hedged item affects net income.

Non-trading derivatives that do not qualify for hedge accounting under AcG-13 are carried at fair value on the balance sheet effective November 1, 2002. This will increase assets by $428 million and liabilities by $395 million. The resulting transition gain of $33 million will be deferred, further increasing liabilities, and recognized in income as the original hedged item affects net income.

Consolidation of special purpose entities

The CICA issued a draft Accounting Guideline, *Consolidation of Special Purpose Entities* on August 1, 2002. The proposed guideline provides guidance on determining who is a primary beneficiary of the special purpose entities and will therefore be required to consolidate the special purpose entities. The effect of this proposed guideline cannot be determined at this time.

NOTE 2 Significant acquisitions and dispositions

2002

Acquisitions

During 2002, we completed the acquisitions of the private banking business of Barclays PLC in the Americas (Barclays) and Eagle Bancshares, Inc. (Eagle Bancshares). Goodwill has been estimated using the best available information as at the date of these financial statements and may be adjusted for up to one year after the closing date of the acquisition in order to incorporate refinements to the initial fair value estimates of assets and liabilities acquired. The details of these acquisitions are as follows:

	Barclays	Eagle Bancshares
Acquisition date	June 28, 2002	July 22, 2002
Business segment	RBC Investments	RBC Banking
Percentage of shares acquired	—	100%
Purchase consideration	Assets were purchased with an initial cash payment of approximately US$111 million. Additional consideration that is contingent upon the amount of business retained is expected to be paid next year and will be recorded as an intangible asset.	Each Eagle Bancshares common share was purchased for US$26 cash
Fair value of tangible assets acquired	$ 741	$ 1,844
Fair value of liabilities assumed	(640)	(1,764)
Fair value of identifiable net tangible assets acquired	101	80
Core deposit intangibles (1)	—	22
Customer lists and relationships (1)	68	—
Goodwill	—	133
Total purchase consideration	$ 169	$ 235

(1) Core deposit intangibles and customer lists and relationships are amortized on a straight-line basis over an estimated average useful life of 10 and 15 years, respectively.

NOTE 2 Significant acquisitions and dispositions (continued)

Pending acquisitions

Acquisition of certain U.S. operations of Generali Group

On April 30, 2002, RBC Insurance announced an agreement to acquire certain assets of Generali Group, the Trieste, Italy-based insurer. These assets consist of the operations of Business Men's Assurance Company of America (BMA) and include an inforce block of approximately 150,000 traditional life insurance policies and annuities as well as the infrastructure for manufacturing variable insurance products. In a related transaction, RBC Dain Rauscher plans to acquire BMA's mutual fund company, Jones & Babson Inc.

The purchase price for these businesses is estimated at approximately US$220 million. The acquisitions are subject to regulatory approvals, approval by shareholders of advisory clients of Jones & Babson Inc., and other customary closing conditions.

Acquisition of Admiralty Bancorp, Inc.

On August 29, 2002, RBC Centura Banks, Inc. (Centura), a wholly owned subsidiary of Royal Bank of Canada, and Admiralty Bancorp, Inc. (Admiralty) announced that they have signed a definitive merger agreement by which Centura will acquire Admiralty. The cash consideration expected to be paid with respect to the acquisition is approximately US$150 million. The excess of approximately US$100 million of the purchase price over the estimated fair value of the net tangible assets acquired will first be allocated to identifiable intangible assets, with the residual allocated to Goodwill. The acquisition is subject to regulatory approvals, approval by shareholders of Admiralty, and other customary closing conditions.

2001

Acquisitions

During 2001, we completed the acquisitions of Liberty Life Insurance Company and Liberty Insurance Services Corporation (Liberty), Dain Rauscher Corporation (Dain Rauscher), Centura Banks, Inc. (Centura) and Tucker Anthony Sutro Corporation (Tucker Anthony Sutro). We accounted for all of these acquisitions using the purchase method. The details of these acquisitions are as follows:

	Liberty	Dain Rauscher	Centura	Tucker Anthony Sutro
Acquisition date	November 1, 2000	January 10, 2001	June 5, 2001	October 31, 2001
Business segment	RBC Insurance	RBC Investments & RBC Capital Markets	RBC Banking	RBC Investments & RBC Capital Markets
Percentage of shares acquired	100%	100%	100%	100%
Purchase consideration	Assets were purchased with a dividend of US$70 million paid from Liberty Life Insurance Company plus US$580 million cash	Each Dain Rauscher common share was purchased for US$95 cash	Approximately 67 million Royal Bank common shares were issued, valued at $49.20 each	Each Tucker Anthony Sutro common share was purchased for US$24 cash
Fair value of tangible assets acquired	$ 2,084	$ 3,719	$ 18,270	$ 831
Fair value of liabilities assumed	(1,383)	(3,425)	(17,214)	(580)
Fair value of identifiable net tangible assets acquired	701	294	1,056	251
Core deposit intangibles (1)	—	—	395	—
Mortgage servicing rights (1)	—	—	12	—
Goodwill	189	1,544	1,868	692
Total purchase consideration	$ 890	$ 1,838	$ 3,331	$ 943

(1) Core deposit intangibles and mortgage servicing rights are amortized on a straight line basis over an estimated average useful life of 10 and 5 years, respectively.

Dispositions

During 2001, we sold our institutional asset management business operated by RT Capital Management Inc. and realized a pretax gain of $313 million (after-tax $251 million) recorded in Other income.

In addition, we divested certain other businesses and realized a pre-tax gain of $132 million (after-tax $111 million) recorded in Other income.

NOTE 3 Results by business and geographic segment

2002	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other
Net interest income on taxable equivalent basis	$ 5,576	$ 223	$ 371	$ 553	$ 137	$ 338
Taxable equivalent adjustment	19	—	—	21	—	—
Net interest income	5,557	223	371	532	137	338
Provision for credit losses	626	—	(1)	465	10	(35)
	4,931	223	372	67	127	373
Other income	2,073	285	3,274	2,112	820	(2)
Non-interest expense	4,528	437	3,146	1,627	668	14
Net income before income taxes	2,476	71	500	552	279	357
Income taxes	937	(46)	157	135	108	74
Non-controlling interest	8	—	—	—	—	100
Net income (loss)	$ 1,531	$ 117	$ 343	$ 417	$ 171	$ 183
Total average assets	$156,500	$ 5,600	$ 15,100	$178,200	$ 2,500	$9,400

[Additional columns below]

[Continued from above table, first column(s) repeated]

2002	Total	Canada	United States	Other Inter-national
Net interest income on taxable equivalent basis	$ 7,198	$ 5,556	$ 1,262	$ 380
Taxable equivalent adjustment	40	24	16	—
Net interest income	7,158	5,532	1,246	380
Provision for credit losses	1,065	529	440	96
	6,093	5,003	806	284
Other income	8,562	4,411	3,040	1,111
Non-interest expense	10,420	5,920	3,676	824
Net income before income taxes	4,235	3,494	170	571
Income taxes	1,365	1,308	14	43
Non-controlling interest	108	100	2	6
Net income (loss)	$ 2,762	$ 2,086	$ 154	$ 522
Total average assets	$367,300	$225,700	$72,600	$69,000

2001	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other
Net interest income on taxable equivalent basis	$ 5,349	$ 206	$ 385	$ 430	$ 147	$ 32
Taxable equivalent adjustment	6	—	—	21	—	5
Net interest income	5,343	206	385	409	147	27
Provision for credit losses	732	—	2	407	(2)	(20)
	4,611	206	383	2	149	47
Other income	1,869	274	2,861	2,346	851	14
Non-interest expense	4,389	375	2,507	1,804	599	81

Net income before income taxes	2,091	105	737	544	401	(20)
Income taxes	900	(28)	224	208	138	(102)
Non-controlling interest	10	—	—	—	—	97
Net income (loss)	$ 1,181	$ 133	$ 513	$ 336	$ 263	$ (15)
Total average assets	$143,100	$ 5,300	$ 11,200	$156,400	$ 2,400	$8,700

[Additional columns below]

[Continued from above table, first column(s) repeated]

2001	Total	Canada	United States	Other Inter-national
Net interest income on taxable equivalent basis	$ 6,549	$ 5,614	$ 485	$ 450
Taxable equivalent adjustment	32	30	2	—
Net interest income	6,517	5,584	483	450
Provision for credit losses	1,119	757	379	(17)
	5,398	4,827	104	467
Other income	8,215	4,972	2,355	888
Non-interest expense	9,755	6,326	2,715	714
Net income before income taxes	3,858	3,473	(256)	641
Income taxes	1,340	1,410	(85)	15
Non-controlling interest	107	97	2	8
Net income (loss)	$ 2,411	$ 1,966	$ (173)	$ 618
Total average assets	$327,100	$210,500	$50,200	$66,400

2000	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other
Net interest income on taxable equivalent basis	$ 4,705	$ 84	$ 359	$ 43	$ 160	$ (44)
Taxable equivalent adjustment	6	—	—	22	—	—
Net interest income	4,699	84	359	21	160	(44)
Provision for credit losses	649	—	(1)	91	(21)	(27)
	4,050	84	360	(70)	181	(17)
Other income	1,570	202	1,958	2,287	691	24
Non-interest expense	3,752	173	1,658	1,445	547	6
Net income before income taxes	1,868	113	660	772	325	1
Income taxes	785	(19)	244	264	140	31
Non-controlling interest	5	—	—	—	—	15
Net income (loss)	$ 1,078	$ 132	$ 416	$ 508	$ 185	$ (45)
Total average assets	$129,700	$ 2,100	$ 8,000	$131,900	$ 1,600	$8,600

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Other

2000	Total	Canada	United States	Inter-national
Net interest income on taxable equivalent basis	$ 5,307	$ 5,029	$ (17)	$ 295
Taxable equivalent adjustment	28	28	—	—
Net interest income	5,279	5,001	(17)	295
Provision for credit losses	691	646	99	(54)
	4,588	4,355	(116)	349
Other income	6,732	4,997	856	879
Non-interest expense	7,581	6,198	640	743
Net income before income taxes	3,739	3,154	100	485
Income taxes	1,445	1,467	29	(51)
Non-controlling interest	20	15	—	5
Net income (loss)	$ 2,274	$ 1,672	$ 71	$ 531
Total average assets	$281,900	$196,600	$34,700	$50,600

For management reporting purposes, our operations are grouped into the business segments of RBC Banking, RBC Insurance, RBC Investments, RBC Capital Markets and RBC Global Services. The Other segment mainly comprises Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations.

The business segments operate on an arm's-length basis with respect to the purchase and sale of intra-group services. Transfer pricing of funds sold or purchased, commissions, or charges and credits for services rendered are generally at market rates.

For geographic reporting purposes, our operations are grouped into Canada, United States and Other international. Canadian-based activities of international money market units are included in United States and Other International.

Goodwill and Other intangibles

Effective November 1, 2001, we adopted the Canadian Institute of Chartered Accountants (CICA) standard on *Goodwill and other intangible assets*. Under this standard, goodwill impairment is assessed at the reporting unit level on at least an annual basis. Reporting units comprise business operations with similar economic characteristics and strategies and may represent either a business segment or a business unit within a business segment.

We have completed both the transitional and annual test for goodwill impairment in all reporting units and have determined that goodwill is not impaired.

The projected amortization of Other intangibles for each of the years ending October 31, 2003 to October 31, 2007 is approximately $76 million.

Goodwill

	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Total
Balance at October 31, 2000	$ 200	$ 4	$ 241	$ 80	$ 123	$ 648
Goodwill acquired during the year	1,868	189	1,618	618	10	4,303
Amortization of goodwill during the year	(61)	(15)	(78)	(42)	(14)	(210)
Goodwill impairment	—	—	(38)	—	—	(38)
Other adjustments (1)	98	26	39	55	(2)	216
Balance at October 31, 2001	2,105	204	1,782	711	117	4,919
Goodwill acquired during the year	143	—	—	—	2	145
Other adjustments (1)	(19)	(8)	(21)	(14)	2	(60)
Balance at October 31, 2002	$ 2,229	$ 196	$ 1,761	$ 697	$ 121	$5,004

(1) Other adjustments include foreign exchange translations on non-Canadian dollar denominated goodwill and certain other adjustments.

Other intangibles

	2002			2001		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Core deposit intangibles	$ 423	$ (50)	$ 373	$ 412	$ (17)	$ 395
Customer lists and relationships	318	(52)	266	233	(30)	203
Mortgage servicing rights	41	(18)	23	17	(1)	16
Other intangibles	5	(2)	3	7	(2)	5
Total	$ 787	$ (122)	$ 665	$ 669	$ (50)	$ 619

The following table discloses a reconciliation of reported net income, earnings per share and diluted earnings per share to the amounts adjusted for the exclusion of Amortization of goodwill, net of related income taxes.

	2002	2001	2000
Net income:			
Reported net income	**$2,762**	$2,411	$2,274
Amortization of goodwill, net of related income taxes	—	246	73
Adjusted net income	**$2,762**	$2,657	$2,347
Earnings per share:			
Reported earnings per share	**$ 3.96**	$ 3.55	$ 3.53
Amortization of goodwill, net of related income taxes	**—**	.38	.12
Adjusted earnings per share	**$ 3.96**	$ 3.93	$ 3.65
Diluted earnings per share:			
Reported diluted earnings per share	**$ 3.93**	$ 3.52	$ 3.51

Amortization of goodwill, net of related income taxes	—	.38	.12
Adjusted diluted earnings per share	**$ 3.93**	$ 3.90	$ 3.63

Canadian GAAP Royal Bank of Canada

NOTE 5 Securities

	Term to maturity (1)						
	Under 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	2002 Total	2001 Total
Trading account (2)							
Canadian government debt	**$ 5,171**	**$ 4,690**	**$ 1,620**	**$ 1,469**	**$ —**	**$12,950**	$13,032
U.S. Treasury and other U.S. agencies	**278**	**809**	**560**	**32**	**—**	**1,679**	953
Other OECD government debt	**618**	**1,223**	**1,254**	**738**	**—**	**3,833**	2,413
Mortgage-backed securities	**71**	**99**	**86**	**327**	**—**	**583**	689
Asset-backed securities	**66**	**247**	**2,704**	**3,523**	**—**	**6,540**	4,428
Other debt	**9,355**	**4,237**	**1,942**	**2,887**	**579**	**19,000**	21,252
Equities	**—**	**—**	**—**	**—**	**23,743**	**23,743**	15,425
	15,559	**11,305**	**8,166**	**8,976**	**24,322**	**68,328**	58,192
Investment account (2)							
Canadian government debt							
Amortized cost	**1,943**	**2,826**	**503**	**247**	**—**	**5,519**	4,623
Estimated fair value	**1,945**	**2,883**	**510**	**275**	**—**	**5,613**	4,708
Yield (3)	**4.0%**	**4.5%**	**5.3%**	**6.6%**	**—**	**4.5%**	4.9%
U.S. Treasury and other U.S. agencies							
Amortized cost	**544**	**1,204**	**319**	**1**	**—**	**2,068**	2,030
Estimated fair value	**552**	**1,280**	**355**	**1**	**—**	**2,188**	2,118
Yield (3)	**4.0%**	**5.0%**	**3.9%**	**6.0%**	**—**	**4.6%**	4.8%
Other OECD government debt							
Amortized cost	**2,308**	**291**	**6**	**—**	**—**	**2,605**	1,561
Estimated fair value	**2,324**	**303**	**6**	**—**	**—**	**2,633**	1,573
Yield (3)	**.3%**	**3.7%**	**4.7%**	**—**	**—**	**.7%**	1.2%
Mortgage-backed securities							
Amortized cost	**1,126**	**2,730**	**294**	**435**	**—**	**4,585**	4,531
Estimated fair value	**1,136**	**2,782**	**312**	**457**	**—**	**4,687**	4,676
Yield (3)	**5.0%**	**5.0%**	**7.2%**	**6.5%**	**—**	**5.3%**	5.6%
Asset-backed securities							
Amortized cost	**—**	**98**	**154**	**75**	**—**	**327**	414
Estimated fair value	**—**	**98**	**163**	**83**	**—**	**344**	434
Yield (3)	**—**	**8.3%**	**6.8%**	**6.6%**	**—**	**7.2%**	8.2%
Other debt							
Amortized cost	**2,263**	**1,490**	**592**	**4,198**	**159**	**8,702**	7,331
Estimated fair value	**2,258**	**1,527**	**613**	**4,267**	**159**	**8,824**	7,375
Yield (3)	**2.3%**	**4.1%**	**6.3%**	**5.5%**	**5.1%**	**4.5%**	5.5%
Equities							
Cost	**—**	**—**	**—**	**—**	**1,272**	**1,272**	1,387
Estimated fair value	**—**	**—**	**—**	**—**	**1,240**	**1,240**	1,423
Amortized cost	**8,184**	**8,639**	**1,868**	**4,956**	**1,431**	**25,078**	21,877
Estimated fair value	**8,215**	**8,873**	**1,959**	**5,083**	**1,399**	**25,529**	22,307
Loan substitute (4)	**50**	**344**	**—**	**—**	**—**	**394**	438
Total carrying value of securities (2)	**$23,793**	**$20,288**	**$10,034**	**$13,932**	**$25,753**	**$93,800**	$80,507
Total estimated fair value of securities	**$23,824**	**$20,522**	**$10,125**	**$14,059**	**$25,721**	**$94,251**	$80,937

(1) Actual maturities may differ from contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.

(2) Trading account securities are carried at estimated fair value. Investment account securities are carried at amortized cost for debt securities and cost for equity securities.

(3) The weighted average yield is based on the carrying value at the end of the year for the respective securities.

(4) The carrying value of loan substitute securities approximates estimated fair value.

Unrealized gains and losses on Investment account securities

	2002				2001			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Canadian government debt	**$ 5,519**	**$ 97**	**$ (3)**	**$ 5,613**	$ 4,623	$ 85	$ —	$ 4,708
U.S. Treasury and other U.S. agencies	**2,068**	**120**	**—**	**2,188**	2,030	88	—	2,118
Other OECD government debt	**2,605**	**28**	**—**	**2,633**	1,561	15	(3)	1,573
Mortgage-backed securities	**4,585**	**102**	**—**	**4,687**	4,531	145	—	4,676
Asset-backed securities	**327**	**28**	**(11)**	**344**	414	25	(5)	434
Other debt	**8,702**	**201**	**(79)**	**8,824**	7,331	169	(125)	7,375
Equities	**1,272**	**28**	**(60)**	**1,240**	1,387	104	(68)	1,423
	$25,078	**$ 604**	**$ (153)**	**$25,529**	$21,877	$ 631	$ (201)	$22,307

Realized gains and losses on sale of Investment account securities

	2002	**2001**	**2000**
Realized gains	**$ 78**	$ 106	$ 106
Realized losses	**(194)**	(234)	(117)
Loss on sale of securities	**$(116)**	$(128)	$ (11)

NOTE 6 Loans

	2002	2001
Canada (1)		
Residential mortgage	**$ 67,700**	$ 64,066
Personal	**25,918**	27,202
Credit card	**4,740**	4,110
Business and government	**29,778**	32,682
	128,136	128,060
United States (1)		
Residential mortgage	**4,351**	2,664
Personal	**5,269**	4,621
Credit card	**125**	128
Business and government	**21,412**	22,414
	31,157	29,827
Other International (1)		
Residential mortgage	**789**	712
Personal	**769**	688
Credit card	**49**	45
Business and government	**10,561**	12,056
	12,168	13,501
Total loans (2)	**171,461**	171,388
Allowance for loan losses	**(2,203)**	(2,278)
Total loans net of allowance for loan losses	**$169,258**	$169,110

(1) Loans in Canada, United States and Other International include all loans booked in those locations, regardless of currency or residence of borrower.

(2) Loans are net of unearned income of $131 million (2001 — $130 million).

Loan maturities and rate sensitivity 2002

	Maturity term				Rate sensitivity			
	Under 1 year	1 to 5 years	Over 5 years	Total	Floating	Fixed term	Non-rate-sensitive	Total
Residential mortgage	**$ 27,489**	**$44,057**	**$1,294**	**$ 72,840**	**$ 8,128**	**$ 64,581**	**$ 131**	**$ 72,840**
Personal	**30,363**	**1,486**	**107**	**31,956**	**21,934**	**9,716**	**306**	**31,956**
Credit card	**4,914**	**—**	**—**	**4,914**	**—**	**3,326**	**1,588**	**4,914**
Business and government	**44,986**	**13,242**	**3,523**	**61,751**	**14,054**	**45,846**	**1,851**	**61,751**
Total loans	**$107,752**	**$58,785**	**$4,924**	**171,461**	**$44,116**	**$123,469**	**$3,876**	**171,461**
Allowance for loan losses				**(2,203)**				**(2,203)**
Total loans net of allowance for loan losses				**$169,258**				**$169,258**

Impaired loans

	2002			2001
	Gross	Specific allowance	Net	Net
Residential mortgage	**$ 131**	**$ (18)**	**$ 113**	$ 153
Personal	**306**	**(177)**	**129**	137
Business and government (1)	**1,851**	**(699)**	**1,152**	1,193

$2,288	**$ (894)**	**$1,394**	$1,483

(1) Includes specific allowances of $2 million (2001 — $5 million) related to loan substitute securities.

Allowance for loan losses

	Balance at beginning of year	Write-offs	Recoveries	2002 Provision for credit losses	Eagle Bancshares at acquisition date	Other	Balance at end of year	2001 Balance at end of year
Residential mortgage	**$ 49**	**$ (12)**	**$ —**	**$ 1**	**$ 4**	**$ (1)**	**$ 41**	$ 49
Personal	**480**	**(398)**	**70**	**283**	**1**	**29**	**465**	480
Credit card	**152**	**(178)**	**38**	**140**	**—**	**—**	**152**	152
Business and government (1)	**1,486**	**(869)**	**90**	**619**	**10**	**69**	**1,405**	1,486
General unallocated allowance	**225**			**22**	**3**	**1**	**251**	225
Total allowance for credit losses	**$ 2,392**	**$(1,457)**	**$ 198**	**$1,065**	**$ 18**	**$98**	**$2,314**	$2,392
Specific allowances	**$ 951**	**$(1,424)**	**$ 198**	**$1,065**	**$ 10**	**$94**	**$ 894**	$ 951
Country risk allowances	**31**	**(33)**	**—**	**—**	**—**	**2**	**—**	31
General allowance								
General allocated	**1,185**	**—**	**—**	**(22)**	**5**	**1**	**1,169**	1,185
General unallocated	**225**	**—**	**—**	**22**	**3**	**1**	**251**	225
Total general allowance for credit losses	**1,410**	**—**	**—**	**—**	**8**	**2**	**1,420**	1,410
Total allowance for credit losses	**$ 2,392**	**$(1,457)**	**$ 198**	**$1,065**	**$ 18**	**$98**	**$2,314**	$2,392
Allowance for off-balance sheet and other items (2)	**(109)**						**(109)**	(109)
Allowance for loan substitute securities	**(5)**	**9**				**(6)**	**(2)**	(5)
Total allowance for loan losses	**2,278**	**(1,448)**	**198**	**1,065**	**18**	**92**	**$2,203**	$2,278

(1) Includes $2 million (2001 — $5 million) related to loan substitute securities and $109 million (2001 — $109 million) related to off-balance sheet and other items.

(2) The allowance for off-balance sheet and other items was reported separately under Other liabilities.

NOTE 7 Securitizations

During the year, we securitized $3,734 million (2001 — $800 million) of government guaranteed residential mortgage loans through the creation of mortgage-backed securities, and sold $1,708 million (2001 — $723 million) of those securities. We received net cash proceeds of $1,691 million (2001 — $720 million) and retained the rights to future excess interest of $71 million (2001 — $25 million) on the residential mortgages. A pre-tax gain on sale, net of transaction costs, of $54 million (2001 — $22 million) was recognized in Securitization revenues. Mortgage-backed securities, created and unsold, remain on the Consolidated balance sheet and are classified as Investment account.

We did not sell any undivided interests in credit card loans during the year (2001 — $1,000 million).

The key assumptions used to value the retained interests in residential mortgage loans at the date of securitization for transactions completed during the year were an annualized payment rate of 12.00%, excess spread of 1.20%, and discount rate of 4.75%.

Static pool credit losses include actual incurred and projected credit losses divided by the original balance of the loans securitized. The expected static pool credit loss ratio for securitized credit card loans at October 31, 2002 was .41%.

The following table summarizes the loan principal, impaired and net write-offs for total loans reported on our balance sheet and securitized loans that we manage as at October 31, 2002 and 2001:

Loans reported and securitized

	2002			2001		
	Loan principal	**Impaired** (1)	**Net write-offs**	**Loan principal**	**Impaired** (1)	**Net write-offs**
Residential mortgage	**$ 78,321**	**$ 228**	**$ 12**	$ 71,882	$ 283	$ 24
Personal	**31,956**	**371**	**328**	32,511	387	334
Credit card	**6,589**	**41**	**172**	6,383	49	152
Business and government	**61,751**	**1,865**	**779**	67,152	1,991	455
Total loans managed (2)	**178,617**	**2,505**	**1,291**	177,928	2,710	965
Less: Loans securitized (3)	**7,156**	**—**	**32**	6,540	—	25
Total loans reported on the Consolidated balance sheet	**$ 171,461**	**$ 2,505**	**$ 1,259**	$ 171,388	$ 2,710	$ 940

(1) Includes past due loans greater than 90 days not classified as impaired.

(2) Represents net loans outstanding and loans that have been securitized, which we continue to service, and excludes any assets we have temporarily acquired with the intent at acquisition to sell them to special purpose entities.

(3) Loan principal includes credit card loans of $1,675 million (2001 — $2,100 million), mortgage-backed securities created and sold of $2,416 million (2001 — $1,361 million) and mortgage-backed securities created and unsold of $3,065 million (2001 — $3,079 million).

At October 31, 2002, key economic assumptions and the sensitivity of the current fair value of these retained interests to immediate 10% and 20% adverse changes in key assumptions are shown in the first table below.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; generally, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

The second table below summarizes certain cash flows received from securitizations in 2002 and 2001.

Sensitivity of key assumptions to adverse changes (1)

	Impact on fair value	
	Credit card loans	**Residential mortgage loans**
Fair value of retained interests	$ 15.1	$ 94.6
Weighted average remaining service life (in years)	.2	3.9
Payment rate	39.07%	13.62%
Impact on fair value of 10% adverse change	$ (1.0)	$ (2.7)
Impact on fair value of 20% adverse change	(1.9)	(5.3)
Excess spread, net of credit losses	5.92%	1.19%
Impact on fair value of 10% adverse change	$ (1.5)	$ (9.5)

Impact on fair value of 20% adverse change	(3.1)	(18.9)
Expected credit losses	1.68%	—
Impact on fair value of 10% adverse change	$ (.5)	$ —
Impact on fair value of 20% adverse change	(.9)	—
Discount rate	12.50%	4.55%
Impact on fair value of 10% adverse change	$ (.1)	$ (.3)
Impact on fair value of 20% adverse change	(.1)	(.6)

(1) All rates are annualized except for credit card loans payment rate, which is monthly.

Cash flows from securitizations

	2002		2001	
	Credit card loans	**Residential mortgage loans**	**Credit card loans**	**Residential mortgage loans**
Proceeds from new securitizations	**$ —**	**$ 1,691**	$ 1,000	$ 720
Proceeds reinvested in revolving securitizations	**8,512**	**303**	6,972	13
Cash flows from retained interests in securitizations	**64**	**15**	60	10

NOTE 8 Premises and equipment

	2002			2001
	Cost	Accumulated depreciation	Net book value	Net book value
Land	**$ 172**	**$ —**	**$ 172**	$ 123
Buildings	**606**	**287**	**319**	335
Computer equipment	**1,654**	**1,198**	**456**	441
Furniture, fixtures and other equipment	**976**	**650**	**326**	313
Leasehold improvements	**901**	**521**	**380**	390
	$4,309	**$ 2,656**	**$1,653**	$1,602

The depreciation and amortization expense for premises and equipment amounted to $407 million and $389 million in 2002 and 2001, respectively.

NOTE 9 Other assets

	2002	2001
Receivable from brokers, dealers and clients	**$ 3,229**	$ 3,505
Accrued interest receivable	**1,319**	1,759
Net deferred income taxes set	**999**	1,096
Insurance-related assets (1)	**936**	708
Prepaid pension benefit cost (2)	**429**	368
Investment in associated corporations	**92**	69
Other	**4,109**	4,430
	$11,113	$11,935

(1) Insurance-related assets include, among other items, policy loan balances, premiums outstanding, amounts due from other insurers in respect of reinsurance contracts and pooling arrangements and deferred acquisition costs.

(2) Prepaid pension benefit cost represents the cumulative excess of pension fund contributions over the amounts recorded as pension benefit expense.

NOTE 10 Deposits

	2002				2001
	Demand (1)	**Notice** (2)	**Term** (3)	**Total**	**Total**
Personal	**$10,735**	**$30,065**	**$ 61,092**	**$101,892**	$101,381
Business and government	**39,004**	**8,864**	**71,723**	**119,591**	107,141
Bank	**1,705**	**85**	**20,213**	**22,003**	24,925
	$51,444	**$39,014**	**$153,028**	**$243,486**	$233,447
Non-interest-bearing					
Canada				**$ 21,843**	$ 20,501
United States				**2,078**	1,918
Other International				**891**	543
Interest-bearing					
Canada				**119,737**	118,161
United States				**35,320**	24,825
Other International				**63,617**	67,499
				$243,486	$233,447

(1) Deposits payable on demand include all deposits for which we do not have the right to notice of withdrawal. These deposits are for the most part, chequing accounts.

(2) Deposits payable after notice include all deposits for which we can legally require notice of withdrawal. These deposits are for the most part, savings accounts.

(3) Term deposits include deposits payable on a fixed date. These deposits include term deposits, guaranteed investment certificates and similar instruments. At October 31, 2002, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $11.3 billion (2001 — $10.7 billion) and other notes and similar instruments in bearer form we have issued of $21.7 billion (2001 — $18.5 billion).

NOTE 11 Other liabilities

	2002	2001
Short-term borrowings of subsidiaries	**$10,173**	$ 6,838
Payable to brokers, dealers and clients	**3,630**	3,202
Insurance claims and policy benefit liabilities	**3,424**	2,986
Accrued interest payable	**1,399**	2,114
Accrued pension and other postretirement benefit expense (1)	**574**	630
Dividends payable	**289**	273
Other	**6,708**	7,737
	$26,197	$23,780

(1) Accrued pension and other postretirement benefit expense represents the cumulative excess of expense pension and other postretirement benefit over pension fund contributions.

NOTE 12 Subordinated debentures

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All redemptions, cancellations and exchanges of subordinated debentures are subject to the consent and approval of the Superintendent of Financial Institutions Canada.

Maturity	Earliest par value redemption date	Interest rate	Denominated in foreign currency	2002	2001
January 11, 2002		11.00%		$ —	$ 41
March 1, 2002		10.50%		—	60
September 3, 2007	(1)	5.40%		—	400
September 3, 2008	September 3, 2003 (2)	5.45%(3)		100	100
March 15, 2009		6.50%	US$125	195	199
April 12, 2009	April 12, 2004 (2)	5.40%(3)		350	350
June 11, 2009	June 11, 2004 (2)	5.10%(3)		350	350
July 7, 2009	July 7, 2004 (2)	6.05%(3)		175	175
October 12, 2009	October 12, 2004 (2)	6.00%(3)		150	150
August 15, 2010	August 15, 2005 (2)	6.40%(3)		700	700
February 13, 2011	February 13, 2006 (4)	5.50%(3)		125	125
April 26, 2011	April 26, 2006 (5)	8.20%(3)		100	100
September 12, 2011	September 12, 2006 (2)	6.50%(3)		350	350
October 24, 2011	October 24, 2006 (6)	6.75%(7)	US$300	467	476
November 8, 2011	November 8, 2006 (8)	(9)	US$400	625	—
June 4, 2012	June 4, 2007 (2)	6.75%(3)		500	500
January 22, 2013	January 22, 2008 (10)	6.10%(3)		500	500
November 14, 2014		10.00%		200	200
January 25, 2015	January 25, 2010 (11)	7.10%(3)		500	500
April 12, 2016	April 12, 2011 (12)	6.30%(3)		400	400
June 8, 2023		9.30%		110	110
October 1, 2083	(13)	(14)		250	250
June 6, 2085	(13)	(15)	US$300	467	477
				$6,614	$6,513

(1) Redeemed on September 3, 2002 at par value.

(2) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 5 basis points and (ii) par value, and thereafter at any time at par value.

(3) Interest at stated interest rate until earliest par value redemption date, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.

(4) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 8 basis points and (ii) par value, and thereafter at any time at par value.

(5) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 10 basis points and (ii) par value, and thereafter at any time at par value.

(6) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on U.S. Treasury notes plus 10 basis points and (ii) par value, and thereafter at any time at par value.

(7) Interest at a rate of 6.75% until earliest par value redemption date, and thereafter at a rate of 1.00% above the U.S. dollar 6-month LIBOR.

(8) Redeemable on the earliest par value redemption date at par value.

(9) Interest at a rate of .50% above the U.S. dollar 3-month LIBOR until earliest par value redemption date, and thereafter at a rate of 1.50% above the U.S. dollar 3-month LIBOR.

(10) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 18 basis points and (ii) par value, and thereafter at any time at par value.

(11) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 12.5 basis points and (ii) par value, and thereafter at any time at par value.

(12) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 22 basis points and (ii) par value, and thereafter at any time at par value.

(13) Redeemable on any interest payment date at par value.

(14) Interest at a rate of .40% above the 30-day Bankers' Acceptance rate.

(15) Interest at a rate of .25% above the U.S. dollar 3-month LIMEAN. In the event of a reduction of the annual dividend we declare on our common shares, the interest payable on the debentures is reduced pro rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of newly issued common shares.

Canadian GAAP Royal Bank of Canada

NOTE 12 Subordinated debentures (continued)

Maturity schedule

The aggregate maturities of subordinated debentures, based on the maturity dates under the terms of issue, are as follows:

2003 - 2007	$ —
2008 to 2012	4,187
Thereafter	2,427
	$6,614

NOTE 13 Capital stock

Authorized capital stock

Preferred — An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares that may be issued may not exceed $10 billion and $5 billion, respectively.

Common — An unlimited number of shares without nominal or par value may be issued.

Issued and outstanding capital stock

	2002			2001			2000		
	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share
First Preferred									
Non-cumulative Series E (1)	—	$ —	$ 3.06	1,500	$ 150	$ 5.16	1,500	$ 150	$ 5.38
Non-cumulative Series H (1)	—	—	—	—	—	1.69	12,000	300	2.25
US$ Non-cumulative Series I (1)	—	—	US .02	8,000	318	US 1.91	8,000	304	US 1.91
Non-cumulative Series J	12,000	300	1.78	12,000	300	1.78	12,000	300	1.78
US$ Non-cumulative Series K	10,000	389	US 1.58	10,000	397	US 1.58	10,000	381	US 1.58
Non-cumulative Series N	12,000	300	1.18	12,000	300	1.18	12,000	300	1.18
Non-cumulative Series O	6,000	150	1.38	6,000	150	1.38	6,000	150	1.38
US$ Non-cumulative Series P	4,000	156	US 1.44	4,000	159	US 1.44	4,000	152	US 1.44
Non-cumulative Series S	10,000	250	1.53	10,000	250	.65	—	—	—
		$1,545			$2,024			$2,037	
Common									
Balance at beginning of year	674,021	$6,973		602,398	$3,076		617,768	$3,065	
Issued	—	—		12,305	576		—	—	
Issued under the stock option plan(2)	5,211	176		2,819	81		2,700	59	
Issued on the acquisition of Centura Banks, Inc.	—	—		67,413	3,317		—	—	
Options granted on acquisition of Dain Rauscher Corporation	—	14		—	33		—	—	
Issued on the acquisition of Richardson Greenshields Limited (3)	318	15		13	2		1,667	50	
Renounced stock appreciation rights, net of related income taxes	—	31		—	—		—	—	
Purchased for cancellation (4)	(14,293)	(152)		(10,927)	(112)		(19,737)	(98)	

Balance at end of year	665,257	$7,057	$ 1.51	674,021	$6,973	$ 1.38	602,398	$3,076	$ 1.14

(1) On November 26, 2001 and October 11, 2002, we redeemed First Preferred Shares Series I and E, respectively. On August 24, 2001, were deemed First Preferred Shares Series H.

(2) Includes the exercise of stock options from tandem stock appreciation rights awards, resulting in a reversal of the accrued liability, net of related income taxes, of $9 million.

(3) During the year we exchanged nil (2001 — 36,527; 2000 — 4,701) Class B shares and 1,846,897 (2001 — 77,956; 2000 — 8,008,712) Class C shares issued by our wholly owned subsidiary, Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited for 318,154 (2001 — 13,621; 2000 — 1,667,334) common shares.

(4) Commencing in June 2001, pursuant to a one-year normal course issuer bid, we repurchased through the facilities of the Toronto and Montreal Stock Exchanges 15,401,100 common shares at an average price of $49.32 per share. Under this bid, 10,927,200 common shares were repurchased during fiscal 2001 at a cost of $509 million and 4,473,900 common shares were repurchased during fiscal 2002 at a cost of $251 million. On June 24, 2002, we renewed our one-year normal course issuer bid to purchase for cancellation, up to 20 million of our common shares, representing approximately 3% of our outstanding common shares. Under this renewed bid, 9,818,900 common shares were purchased, at an average cost of $52.27 per share, for $513 million. During fiscal 2002, a total of 14,292,800 common shares were repurchased for $764 million at an average cost of $53.45 per share.

NOTE 13 Capital stock (continued)

Terms of preferred shares

	Dividend per share (1)	Redemption date (2)	Redemption price (3)	Conversion dates	
				At the option of the bank (2), (4)	At the option of the holder (5)
First Preferred					
Non-cumulative Series J	0.443750	May 24, 2003	25.00	May 24, 2003	November 24, 2003
US$ Non-cumulative Series K	US 0.393750	May 24, 2003	US 25.00	May 24, 2003	November 24, 2003
Non-cumulative Series N	0.293750	August 24, 2003	26.00	August 24, 2003	August 24, 2008
Non-cumulative Series O	0.343750	August 24, 2004	26.00	August 24, 2004	Not convertible
US$ Non-cumulative Series P	US 0.359375	August 24, 2004	US 26.00	August 24, 2004	Not convertible
Non-cumulative Series S	0.38125	August 24, 2006	26.00	August 24, 2006	Not convertible

(1) Non-cumulative preferential dividends on Series J, K, N, O, P and S are payable quarterly, as and when declared by the Board of Directors, on or about the 24th day of February, May, August and November.

(2) Subject to the consent of the Superintendent of Financial Institutions Canada and the requirements of the Bank Act, we may, on or after the dates specified above, redeem First Preferred Shares. These may be redeemed (i) for cash, in the case of First Preferred Shares Series J and K equal to the redemption price as stated above, in the case of Series N at a price per share of $26, if redeemed during the 12 months commencing August 24, 2003, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2007, and in the case of Series O and P at a price per share of $26 if redeemed during the 12 months commencing August 24, 2004, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2008, and in the case of Series S at a price per share of $26 if redeemed during the 12 months commencing August 26, 2006, and decreasing by $0.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2010, or (ii) by conversion, in the case of Series J and K into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

(3) Subject to the consent of the Superintendent of Financial Institutions Canada and the requirements of the *Bank Act*, we may purchase First Preferred Shares for cancellation at a purchase price, in the case of the Series J and K not exceeding the then-applicable redemption price specified above plus all declared and unpaid dividends, and, in the case of the Series N, O, P and S at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

(4) Subject to the approval of the Toronto Stock Exchange, we may, on or after the dates specified above, convert First Preferred Shares Series N, O, P and S into our common shares. First Preferred Shares may be converted into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

(5) Subject to our right to redeem or to find substitute purchasers, the holder may, on or after the dates specified above, convert First Preferred Shares into our common shares. Series J, K and N may be converted, quarterly, into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

Restrictions on the payment of dividends

We are prohibited by the *Bank Act* (Canada) from declaring any dividends on our preferred or common shares when we are, or would be placed as a result of the declaration, in contravention of the capital adequacy and liquidity regulations or any regulatory directives issued under the act. We may not pay dividends on our common shares at any time unless all dividends to which preferred shareholders are then entitled have been declared and paid or set apart for payment.

In addition, we may not declare or pay a dividend without the approval of the Superintendent of Financial Institutions Canada (OSFI) if, on the day the dividend is declared, the total of all dividends in that year would exceed the aggregate of our net income up to that day and of our retained net income for the preceding two years.

We have agreed that if RBC Capital Trust (a closed-end trust, which is a subsidiary) fails to pay any required distribution on its capital trust securities, we will not declare dividends of any kind on any of our preferred or common shares.

Currently, these limitations do not restrict the payment of dividends on our preferred or common shares.

Regulatory capital

We are subject to the regulatory capital requirements defined by OSFI, which includes the use of Canadian GAAP. Two measures of capital strength established by OSFI, based on standards issued by the Bank for International Settlements (BIS), are risk-adjusted capital ratios and the assets-to-capital multiple.

OSFI requires Canadian banks to maintain a minimum Tier 1 and Total capital ratio of 4% and 8%, respectively. However, OSFI has also

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%. At October 31, 2002, our Tier 1 and Total capital ratios were 9.3% and 12.7%, respectively (2001 — 8.7% and 11.8%, respectively).

In the evaluation of our assets-to-capital multiple, OSFI specifies that total assets, including specified off-balance sheet financial instruments, should be no greater than 23 times Total capital. At October 31, 2002, our assets-to-capital multiple was 17.3 times (2001 — 17.2 times).

Other

In 2000, we entered into an 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 (allocated general and unallocated) be drawn down below a certain level. During the year, the reinsurer was downgraded from AAA. Based on this development and an internal review by management, the agreement was not renewed.

NOTE 14 Income taxes

	2002	2001	2000
Provision for income tax in income			
Current			
Canada —			
Federal	**$ 703**	$ 845	$ 799
Provincial	**272**	360	349
International	**155**	103	258
	1,130	1,308	1,406
Deferred			
Canada —			
Federal	**167**	16	60
Provincial	**57**	1	20
International	**11**	15	(41)
	235	32	39
	1,365	1,340	1,445
Income tax expense (benefit) in shareholders' equity			
Unrealized foreign currency translation gains and losses, net of hedging activities	**100**	(487)	(37)
Stock appreciation rights	**25**	—	—
Cumulative effect of initial adoption of *Employee Future Benefits* accounting standard	—	(157)	—
	125	(644)	(37)
Total income taxes	**$1,490**	$ 696	$1,408

Deferred income taxes (temporary differences)

	2002	2001	2000
Deferred income tax asset (1)			
Allowance for credit losses	**$ 512**	$ 582	$ 514
Deferred compensation	**339**	190	78
Pension related	**43**	93	—
Tax loss carryforwards	**22**	84	72
Premises and equipment	—	—	83
Deferred income	**60**	61	81
Other	**259**	399	223
	1,235	1,409	1,051
Deferred income tax liability			
Premises and equipment	**(9)**	(91)	—
Deferred expense	**(77)**	(88)	(59)
Pension related	—	—	(119)
Other	**(150)**	(134)	(77)
	(236)	(313)	(255)
Net deferred income tax asset	**$ 999**	$1,096	$ 796

(1) We have determined that it is more likely than not that the deferred income tax asset will be realized through a combination of future reversals of temporary differences and taxable income.

Reconciliation to statutory tax rate

	2002		2001		2000	
Income taxes at Canadian statutory tax rate	**$1,630**	**38.5%**	$1,601	41.5%	$1,600	42.8%
Increase (decrease) in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	**(276)**	**(6.5)**	(253)	(6.5)	(311)	(8.3)
Tax-exempt income from securities	**(7)**	**(.2)**	(7)	(.2)	(7)	(.2)

Tax rate change	**33**	**.8**	63	1.6	36	1.0
Other	**(15)**	**(.4)**	(64)	(1.7)	127	3.3
Income taxes reported in income/effective tax rate	**$1,365**	**32.2%**	$1,340	34.7%	$1,445	38.6%

International earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. We have not recognized a deferred tax liability for these undistributed earnings as we do not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at $841 million as at October 31, 2002 (2001 — $772 million; 2000 — $737 million).

NOTE 15 Pensions and other postretirement benefits

We sponsor a number of defined benefit and defined contribution plans providing pension and other postretirement benefits to eligible employees.

The following tables present information related to our benefit plans, including amounts recorded on the Consolidated balance sheet and the components of net benefit expense:

Plan assets, benefit obligation and funded status

	Pension plans (1)		Other postretirement plans (2)	
	2002	2001	2002	2001
Change in fair value of plan assets (3)				
Fair value of plan assets, October 1	$4,049	$4,519	$ 1	$ 67
Actual return on plan assets	(133)	(476)	—	7
Company contributions	99	20	23	21
Plan participant contributions	19	18	1	—
Benefits paid	(258)	(251)	(25)	(22)
Plan settlements	(52)	—	—	(72)
Business acquisitions	—	63	—	—
Change in foreign currency exchange rate	17	12	—	—
Transfers from other plans	6	144	—	—
Fair value of plan assets, September 30	$3,747	$4,049	$ —	$ 1
Change in benefit obligation				
Benefit obligation, October 1	$4,044	$3,710	$ 693	$ 609
Service cost	113	104	22	64
Interest cost	297	268	51	49
Plan participant contributions	19	18	1	—
Actuarial loss	280	55	318	19
Benefits paid	(258)	(251)	(25)	(22)
Transfers from other plans	3	—	—	—
Plan amendments and curtailments	59	31	7	—
Plan settlements	—	—	—	(72)
Business acquisitions	2	117	—	35
Change in foreign currency exchange rate	31	(9)	—	—
Changes in assumptions	—	1	—	11
Benefit obligation, September 30	$4,590	$4,044	$ 1,067	$ 693
Funded status				
(Deficit) excess of plan assets over benefit obligation	$ (843)	$ 5	$ (1,067)	$ (692)
Unrecognized net actuarial loss	792	32	360	42
Unrecognized transition (asset) obligation	(26)	(24)	190	207
Unrecognized prior service cost	211	205	13	10
Contributions between September 30 and October 31	222	—	3	—
Other	(1)	(48)	1	1
Prepaid asset (accrued liability) as at October 31	$ 355	$ 170	$ (500)	$ (432)
Weighted average assumptions				
Discount rate	6.75%	7.00%	7.00%	7.25%
Assumed long-term rate of return on plan assets	7.00%	7.00%	4.75%	4.75%
Rate of increase in future compensation	4.00%	4.40%	4.40%	4.40%

Pension benefit expense (4)

	2002	2001	2000
Service cost	$ 113	$ 104	$ 98
Interest cost	297	268	254
Expected return on plan assets	(300)	(306)	(291)
Amortization of transition asset	(2)	(2)	(2)
Amortization of prior service cost	32	17	22
Recognized net actuarial gain	(27)	(45)	(41)
Settlement loss	52	—	—
Other	(45)	(14)	19

Defined benefit pension expense	120	22	59
Defined contribution pension expense	61	30	6
Pension benefit expense	$ 181	$ 52	$ 65

Other postretirement benefit expense (2)

	2002	2001	2000
Service cost	$22	$ 64	$17
Interest cost	51	49	42
Expected return on plan assets	—	(1)	(3)
Amortization of transition obligation	17	17	17
Other	2	2	—
Other postretirement benefit expense	$92	$131	$73

2002 sensitivity of key assumptions

Pensions	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 126	$ 16
Impact of .25% change in rate of increase in future compensation assumption	29	2
Impact of .25% change in the long-term rate of return on plan assets assumption		10

Postretirement	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 48	$ 3
Impact of .25% change in rate of increase in future compensation assumption	4	1

(1) Included in these amounts are $3,239 million (2001 — $266 million) of plan assets and $4,131 million (2001 — $567 million) of benefit obligations for plans that are not fully funded.

(2) Includes postretirement health, dental and life insurance. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the postretirement health and life plans were 8% for medical and 5% for dental, decreasing to an ultimate rate of 4% in 2009. A one percentage point increase in assumed health care cost trend rates would have increased the service and interest costs and obligation by $12 million and $142 million, respectively. A one percentage point decrease in assumed health care cost trends would have lowered the service and interest costs and the obligation by $8 million and $112 million, respectively.

(3) Plan assets includes 818,597 (2001 — 886,384) of Royal Bank common shares having a fair value of $43 million (2001 — $43 million). In addition, dividends amounting to $1 million (2001 — $1 million) were received on Royal Bank common shares held in the plan assets during the year.

(4) Discount rate assumption of 7.00% (2001 — 7.00%; 2000 — 7.25%) was used to determine pension benefit expense.

NOTE 16 Stock-based compensation

Stock option plans

We have two stock option plans — one for certain key employees and one for non-employee directors. Under these plans, options are periodically granted to purchase common shares at prices not less than the market price of such shares on the day of grant. The options vest over a 4-year period for employees and immediately for directors and are exercisable for a period not exceeding 10 years from the grant date.

For options issued prior to October 31, 2002 that were not accompanied by tandem stock appreciation rights (SARs), no compensation expense was recognized as the option's exercise price was not less than the market price of the underlying stock on the day of grant. When the options are exercised, the proceeds received are credited to common shares.

Between November 29, 1999 and June 5, 2001, grants of options under the employee stock option plan were accompanied by tandem SARs. With SARs, participants could choose to exercise a SAR instead of the corresponding option. In such cases, the participants received a cash payment equal to the difference between the closing price of common shares on the day immediately preceding the day of exercise and the exercise price of the option. The compensation expense for these grants, which is amortized over the associated option's vesting period, was $44 million for the year ended October 31, 2002 (2001 - $23 million; 2000 — $52 million).

During the last quarter of 2002, certain executive participants voluntarily renounced their SARs while retaining the corresponding options. At the time of renouncement, the compensation cost was fixed and the accrued liability of $51 million was transferred to equity.

Stock options

	2002		2001		2000	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding at beginning of year	**30,158**	**$ 36.84**	25,880	$ 33.61	20,966	$ 32.42
Granted	**4,215**	**49.12**	7,949	44.46	8,286	33.09
Exercised — Common shares	**(5,211)**	**32.07**	(2,819)	28.77	(2,700)	22.05
— SARs	**(291)**	**34.01**	(259)	33.55	—	—
Cancelled	**(392)**	**38.37**	(593)	37.82	(672)	36.10
Outstanding at end of year	**28,479**	**$ 39.54**	30,158	$ 36.84	25,880	$ 33.61
Exercisable at end of year	**14,050**	**$ 36.07**	12,895	$ 32.62	8,881	$ 30.29
Available for grant	**16,105**		20,289		25,849	

Range of exercise prices

	Options outstanding			Options exercisable	
	Number outstanding (000s)	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable (000s)	Weighted average exercise price
$14.46 — $15.68	587	$ 15.57	3.9	587	$ 15.57
$24.80 — $28.25	2,816	26.19	6.9	2,401	25.85
$30.00 — $39.64	15,175	36.68	7.1	9,595	37.90
$43.59 — $52.19	9,901	49.15	9.4	1,467	49.04
Total	28,479	$ 39.54	7.8	14,050	$ 36.07

Fair value method

CICA 3870, *Stock-based Compensation and Other Stock-based Payments*, recommends the recognition of an expense for option awards using the fair value method of accounting. It permits the use of other methods, including the intrinsic value based method, provided pro forma disclosures of net income and earnings per share applying the fair value method are made. We will be adopting the recommendations of CICA 3870 prospectively for new awards granted after November 1, 2002. The impact is an estimated charge to earnings of $6 million for the year ended October 31, 2003.

We have provided pro forma disclosures, which demonstrate the effect as if we had adopted the recommended recognition provisions of CICA 3870 in 2002, 2001 and 2000 as indicated below:

Pro forma net income and earnings per share

	As reported			Pro forma (1)		
	2002	2001	2000	2002	2001	2000
Net income	$2,762	$2,411	$2,274	$2,730	$2,375	$2,230
Earnings per share	3.96	3.55	3.53	3.91	3.49	3.46
Diluted earnings per share	3.93	3.52	3.51	3.89	3.47	3.44

(1) Compensation expense under the fair value based method is recognized over the vesting period of the related stock options. Accordingly, the pro forma results of applying this method may not be indicative of future amounts.

In determining the pro forma disclosures above, the fair value of options granted during 2002 was estimated on the date of grant using an option pricing model with the following assumptions: (i) risk-free interest rate of 4.89% (2001 — 5.86%, 2000 — 6.04%), (ii) expected option life of 6 years (2001; 2000 — 10 years), (iii) expected volatility of 20% (2001 — 24%; 2000 — 22%) and (iv) expected dividends of 2.9% (2001 — 2.67%; 2000 — 2.60%). The fair value of each option granted was $10.02 (2001 — $14.78; 2000 — $10.26).

Employee share ownership plans

We offer many employees an opportunity to own stock through RBC savings and share ownership plans. Under these plans, the employee can generally contribute between 1% and 10% of their annual salary or benefit base for commissioned employees. For each contribution between 1% and 6%, we will match 50% of the employee contributions in common shares. For the RBC Dominion Securities Savings Plan our maximum annual contribution is $4,500 per employee. For the RBC UK Share Incentive Plan our maximum annual contribution is £1,500 per employee. We contributed $49 million (2001 — $47 million; 2000 — $45 million), under the terms of these plans, towards the purchase of common shares. As at October 31, 2002, an aggregate of 17,397,119 common shares were held under these plans.

Deferred share and other plans

We offer deferred share unit plans to executives and non-employee directors. Under these plans, each executive or director may choose to receive all or a percentage of their annual incentive bonus or directors fee in the form of deferred share units (DSUs). The executives or directors must elect to participate in the plan prior to the beginning of the fiscal year. DSUs earn dividend equivalents in the form of additional DSUs at the same rate as dividends on common shares. The participant is not allowed to convert the DSUs until retirement, permanent disability or termination of employment/directorship. The cash value of the DSUs is equivalent to the market value of common shares when conversion takes place. The value of the DSUs as at October 31, 2002, was $73 million (2001 — $52 million; 2000 — $26 million). The share appreciation and dividend- related compensation expense recorded for the year ended October 31, 2002 in respect of these plans was $16 million (2001 — $8 million, 2000 — $7 million).

We have a deferred bonus plan for certain key employees within RBC Capital Markets. Under this plan, a percentage of each employee's annual incentive bonus is deferred and accumulates dividend equivalents at the same rate as dividends on common shares. The employee will receive the deferred bonus in equal amounts paid within 90 days of the following 3 year-end dates. The value of the deferred bonus paid will be equivalent to the original deferred bonus adjusted for dividends and changes in the market value of common shares at the time the bonus is paid. The value of the deferred bonus as at October 31, 2002, was $187 million (2001 — $128 million; 2000 — $89 million). The share appreciation and dividend-related compensation expense for the year ended October 31, 2002 in respect of this plan was $20 million (2001 — $5 million recovery; 2000 — $10 million).

We offer deferred share plans to certain key employees within RBC Investments with various vesting periods up to a maximum of five years. Awards under some of these plans may be deferred in the form of common shares, which are held in trust, or DSUs. The participant is not allowed to convert the DSU until retirement, permanent disability, or termination of employment. The cash value of DSUs is equivalent to the market value of common shares when conversion takes place. Certain plans award share units that track the value of common shares with payout in cash at the end of a maximum five-year term. The value of deferred shares held in trust as at October 31, 2002, was $34 million (2001 — $14 million). The value of the various share units as at October 31, 2002, was $10 million (2001 — $4 million). The stock-based compensation expense recorded for the year ended October 31, 2002, in respect of these plans, was $32 million (2001 — $16 million; 2000 — $14 million).

We offer a performance deferred share plan to certain key employees. The performance deferred share award is made up of 50% regular shares and 50% performance shares all of which vest at the end of 3 years. At the time the shares vest, the performance shares can be increased or decreased by 50% depending on our total shareholder return compared to 15 North American financial institutions. Compensation expense of $11 million was recognized for the year ended October 31, 2002 in respect of this award. The value of common shares held in trust as at October 31, 2002, was $34 million.

We offer a mid-term compensation plan to certain senior executive officers. Awards under this program are converted into share units equivalent to common shares. The share units vest over a three-year period in equal installments of one-third per year. The units have a value equal to the market value of common shares on each vesting date and are paid in either cash or common shares at our option. The value of the share units as at October 31, 2002 was $16 million (2001 — $21 million). The compensation expense recorded for the year ended October 31, 2002 in respect of this plan was $12 million (2001 — $8 million).

Dain Rauscher maintains a non-qualified deferred compensation plan for key employees under an arrangement called the wealth accumulation plan. This plan allows eligible employees to make deferrals of their annual income and allocate the deferrals among various fund choices, which include an RBC share unit fund that tracks the value of our common shares. Certain deferrals may also be eligible for matching contributions from us. All matching contributions are allocated to the RBC share unit fund. The compensation expense recorded for the year ended October 31, 2002, in respect of the matching contributions, was $12 million (2001 — $7 million). The value of the RBC share units held under the plan as at October 31 2002, was $70 million (2001 — $7 million).

For other stock-based plans, compensation expense of $19 million was recognized for the year ended October 31, 2002 (2001 — $14 million; 2000 — $1 million). The value of the share units and shares held under these plans as at October 31, 2002 was $10 million (2001 — $3 million; 2000 — $1 million).

Retention plan

On the acquisition of Dain Rauscher, certain key employees of Dain Rauscher were offered retention units awards totalling $318 million in award value to be paid out evenly over expected service periods of between three and four years. Payments to participants of the plan are based on the market value of common shares on the vesting date. The compensation expense recorded for the year ended October 31, 2002 in respect of this plan was $92 million (2001 — $143 million). The liability under this plan was $151 million as at October 31, 2002 (2001 — $135 million).

Canadian GAAP Royal Bank of Canada

NOTE 17 Earnings per share

	2002	2001	2000
Earnings per share			
Net income	**$ 2,762**	$ 2,411	$ 2,274
Preferred share dividends	**(98)**	(135)	(134)
Net income available to common shareholders	**$ 2,664**	$ 2,276	$ 2,140
Average number of common shares (in thousands)	**672,571**	641,516	606,389
	$ 3.96	$ 3.55	$ 3.53
Diluted earnings per share			
Net income available to common shareholders	**$ 2,664**	$ 2,276	$ 2,140
Effect of assumed conversions (1)	**—**	1	2
Net income adjusted for diluted computation	**$ 2,664**	$ 2,277	$ 2,142
Average number of common shares (in thousands)	**672,571**	641,516	606,389
Convertible Class B and C shares (1)	**14**	363	736
Stock options (2)	**5,535**	5,337	2,740
Average number of diluted common shares (in thousands)	**678,120**	647,216	609,865
	$ 3.93	$ 3.52	$ 3.51

(1) The convertible shares included the Class B and C shares issued by our wholly owned subsidiary Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited on November 1, 1996. The outstanding Class B shares were all exchanged into Royal Bank of Canada common shares in 2001 and the remaining Class C shares were exchanged for common shares on November 9, 2001. The price of the Class C shares was determined based on our average common share price during the 20 days prior to the date the exchange was made. During the year we exchanged nil (2001 — 36,527; 2000 — 4,701) Class B shares and 1,846,897 (2001 — 77,956; 2000 — 8,008,712) Class C shares for 318,154 (2001 — 13,621; 2000 — 1,667,334) common shares.

(2) The dilutive effect of stock options was calculated using the treasury stock method. This method calculates the number of incremental shares by assuming the outstanding stock options are (i) exercised and (ii) then reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price of our common shares for the period. Excluded from the calculation of diluted earnings per share were average options outstanding of 9,761 with an exercise price of $53.76 (2001 — 7,862 at $50.72; 1,956 at $49.03; 2000 — 6,153,507 at $39.64; 6,589,464 at $39.01; 2,639 at $38.22; and 393 at $43.59) as the options' exercise price was greater than the average market price of our common shares.

NOTE 18 Commitments and contingencies

Financial instruments with contractual amounts representing credit risk

The primary purpose of these commitments is to ensure that funds are available to a client as required. Our policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans.

Guarantees and standby letters of credit, which represent irrevocable assurances that we will make payments in the event that a client cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by us on behalf of a client authorizing a third party to draw drafts on us up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipment of goods to which they relate.

In securities lending transactions, we act as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loan at all times.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit.

Uncommitted amounts represent an amount for which we retain the option to extend credit to a borrower.

A note issuance facility represents an underwriting agreement that enables a borrower to issue short-term debt securities. A revolving underwriting facility represents a renewable note issuance facility that can be accessed for a specified period of time.

Financial instruments with contractual amounts representing credit risk

	2002	2001
Guarantees and standby letters of credit	**$ 13,610**	$ 13,391
Documentary and commercial letters of credit	**772**	750
Securities lending	**23,967**	21,377
Commitments to extend credit		
Original term to maturity of 1 year or less	**40,931**	44,179
Original term to maturity of more than 1 year	**34,115**	39,960
Uncommitted amounts	**45,978**	53,750
Note issuance/revolving underwriting facilities	**23**	132
	$159,396	$173,539

NOTE 18 Commitments and contingencies (continued)

Lease commitments

Minimum future rental commitments for premises and equipment under long-term non-cancellable leases for the next five years and thereafter are shown below.

Lease commitments

2003	$ 364
2004	330
2005	300
2006	267
2007	203
Thereafter	754
Total	$2,218

Litigation

On June 21, 2002, a week before it was due to pay Royal Bank of Canada US $517 million plus interest under the terms of a total return swap, which is recorded in Other assets, Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank) initiated an action against us in New York state court in an effort to nullify its obligation under the swap. On June 24, 2002, we instituted proceedings against Rabobank in the High Court in London, alleging that Rabobank had repudiated its obligation under the swap. On July 31, 2002, we filed a motion to dismiss or stay Rabobank's New York lawsuit. Rabobank filed, on September 27, 2002, an application to stay our claim with the High Court in London. Both our motion to stay or dismiss and Rabobank's application to stay are proceeding and the matter of forum is expected to be considered by both courts in the near future. Management expects to recover this amount in its entirety and accordingly a provision for loss has not been recorded.

Various other legal proceedings are pending that challenge certain of our practices or actions. Many of these proceedings are loan-related and are in reaction to steps taken by us and our subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

Pledged assets

In the ordinary course of business we accept collateral, generally under reverse repurchase and securities borrowing agreements. The fair value of collateral accepted that can be sold or repledged by us totalled $55.9 billion (2001 — $52.9 billion). Of this collateral, $36.4 billion (2001 — $41.9 billion) has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales. Details of assets pledged against liabilities, including amounts that cannot be sold or repledged by the secured party, are shown below:

Pledged assets

	2002	2001
Assets pledged to:		
Foreign governments and central banks	**$ 1,418**	$ 113
Clearing systems, payment systems and depositories	**1,075**	2,470
Assets pledged in relation to:		
Derivative transactions	**1,828**	830
Securities borrowing and lending	**20,840**	16,413
Obligations related to securities sold under repurchase agreements	**21,109**	20,855
Other	**3,389**	6,095
Total	**$49,659**	$46,776

NOTE 19 Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

Derivative product types

We use the following derivative financial instruments for both trading and non-trading purposes.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. For interest rate swaps, fixed and floating interest payments are exchanged based on a notional amount. Cross currency swaps involve the exchange of fixed or

floating interest payments in one currency for the receipt of fixed or floating interest payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Forwards and futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts that are transacted on regulated exchanges.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), by or at a set date, a specified amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right.

Credit derivatives are contracts whose redemption value is linked to specific credit related events, such as bankruptcy, credit downgrade, non-payment or default. Examples of credit derivatives include credit default swaps, total return swaps and credit default baskets.

Derivatives held or issued for trading purposes

Most of our derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to transfer, modify or reduce current or expected risks. Trading involves market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. We do not deal, to any significant extent, in leveraged derivative transactions. These transactions contain a multiplier which, for any given change in market prices, could cause the change in the transaction’s fair value to be significantly different from the change in fair value that would occur for a similar derivative without the multiplier.

Derivatives held or issued for non-trading purposes

We also use derivatives in connection with our own asset/liability management activities, which include hedging and investment activities.

Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities. As at October 31, 2002, the level of interest rate derivatives in place to hedge anticipated transactions, and accounted for as a hedge, was insignificant. Purchased interest rate options are used to hedge redeemable deposits and other options embedded in consumer products. Written options are used in our asset/liability management activities when specifically linked to a purchased option in the form of a collar. We use credit derivatives to manage our credit exposures and for risk diversification in our lending portfolio. The amount of our deferred gains and losses associated with non-trading derivatives hedging anticipated transactions was insignificant.

Derivatives — Notional amounts

Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and are a common measure of business volume. The following table provides the notional amounts of our derivative transactions by term to maturity.

Notional amount of derivatives by term to maturity

	Term to maturity				2002		2001	
	Within 1 year	1 to 5 years	Over 5 years (1)	Total	Trading	Other than trading	Trading	Other than trading
Over-the-counter (OTC) contracts								
Interest rate contracts								
Forward rate agreements	**$ 184,487**	**$ 14,358**	**$ —**	**$ 198,845**	**$ 194,537**	**$ 4,308**	$ 95,678	$ —
Swaps	**264,829**	**418,082**	**179,353**	**862,264**	**794,961**	**67,303**	628,735	69,167
Options purchased	**8,193**	**35,623**	**11,477**	**55,293**	**55,289**	**4**	19,787	114
Options written	**9,306**	**34,564**	**12,304**	**56,174**	**56,080**	**94**	22,177	—
Foreign exchange contracts								
Forward contracts	**507,410**	**33,673**	**3,636**	**544,719**	**522,035**	**22,684**	528,467	17,969
Cross currency swaps	**893**	**3,405**	**5,609**	**9,907**	**9,907**	**—**	8,618	—
Cross currency interest rate swaps	**10,286**	**37,315**	**26,547**	**74,148**	**71,050**	**3,098**	63,405	2,796
Options purchased	**53,200**	**3,004**	**—**	**56,204**	**56,160**	**44**	48,542	612
Options written	**58,594**	**3,242**	**—**	**61,836**	**61,209**	**627**	54,133	—
Credit derivatives (2)	**3,625**	**37,333**	**11,193**	**52,151**	**50,928**	**1,223**	20,952	955
Other contracts (3)	**9,514**	**5,221**	**7,884**	**22,619**	**22,085**	**534**	20,170	2,643
Exchange-traded contracts								
Interest rate contracts								
Futures — long positions	**19,207**	**7,535**	**19**	**26,761**	**26,761**	**—**	20,319	—
Futures — short positions	**31,583**	**5,185**	**25**	**36,793**	**36,500**	**293**	43,232	87
Options purchased	**1,418**	**1**	**—**	**1,419**	**640**	**779**	13,352	—
Options written	**2,368**	**2**	**—**	**2,370**	**2,059**	**311**	12,079	—
Foreign exchange contracts								
Futures — long positions	**27**	**—**	**—**	**27**	**27**	**—**	348	—
Futures — short positions	**321**	**—**	**—**	**321**	**321**	**—**	144	—
Other contracts (3)	**18,356**	**455**	**—**	**18,811**	**18,811**	**—**	58,130	—
	$1,183,617	**$638,998**	**$258,047**	**$2,080,662**	**$1,979,360**	**$ 101,302**	$1,658,268	$ 94,343

(1) Includes contracts maturing in over 10 years with a notional value of $37,322 million (2001 — $19,637 million). The related gross positive replacement cost is $1,291 million (2001 — $950 million).

(2) Comprises credit default swaps, total return swaps and credit default baskets.

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

Derivative-related credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to us. This market value is referred to as replacement cost since it is an estimate of what it would cost to replace transactions at prevailing market rates if a default occurred.

For internal risk management purposes, the credit equivalent amount arising from a derivative transaction is defined as the sum of the replacement cost plus an add-on that is an estimate of the potential change in the market value of the transaction through to maturity. The add-on is determined by statistically based models that project the expected volatility of the variable(s) underlying the derivative, whether interest rate, foreign exchange rate, equity or commodity price. Both the replacement cost and the add-on are continually re-evaluated over the life of each transaction to ensure that sound credit risk valuations are used. The risk-adjusted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. The two main categories of netting are close-out netting and settlement netting. Under the close-out netting provision, if the counter-party defaults, we have the right to terminate all transactions covered by the master agreement at the then-prevailing market values and to sum the resulting market values, offsetting negative against positive values, to arrive at a single net amount owed either by us or the counterparty. Under the settlement netting provision, all payments and receipts in the same currency and due on the same day between specified pairs including us and the counterparty units are netted, generating a single payment in each currency, due either by us or the

counterparty unit. We actively encourage counterparties to enter into master netting agreements. However, measurement of our credit exposure arising out of derivative transactions is not reduced to reflect the effects of netting unless the enforceability of that netting is supported by appropriate legal analysis as documented in our policy.

To further manage derivative-related counterparty credit exposure, we enter into agreements containing mark-to-market cap provisions with some counterparties. Under such provisions, we have the right to request that the counterparty pay down or collateralize the current market value of its derivatives position with us. The use of collateral does not currently represent a significant credit mitigation technique for us in managing derivative-related credit risk.

We subject our derivative-related credit risks to the same credit approval, limit and monitoring standards that we use for managing other transactions that create credit exposure. This includes evaluation of counterparties as to creditworthiness, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process. We utilize a single internal rating system for all credit risk exposure. In most cases, these internal ratings approximate the external risk ratings of public rating agencies. The tables below show replacement cost, credit equivalent and risk-adjusted amounts of our derivatives both before and after the impact of netting. During 2002 and 2001, neither our actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

NOTE 19 Derivative financial instruments (continued)

Replacement cost of derivative financial instruments by risk rating and by counterparty type

As at October 31, 2002	Risk rating (1)					Counterparty type (2)			
	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total
Gross positive replacement cost (3)	$ 15,442	$11,008	$ 3,421	$1,580	$ 31,451	$ 21,427	$ 2,068	$ 7,956	$ 31,451
Impact of master netting agreements	(10,638)	(7,208)	(2,142)	(873)	(20,861)	(16,343)	—	(4,518)	(20,861)
Replacement cost (after netting agreements)	$ 4,804	$ 3,800	$ 1,279	$ 707	$ 10,590	$ 5,084	$ 2,068	$ 3,438	$ 10,590
Replacement cost (after netting agreements) - 2001	$ 3,583	$ 4,322	$ 1,515	$ 529	$ 9,949	$ 3,652	$ 1,892	$ 4,405	$ 9,949

(1) Our internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings.

(2) Counterparty type is defined in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.

(3) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded instruments are subject to daily margin requirements and are excluded as they are deemed to have no additional credit risk. The fair value of $194 million (2001 — $194 million) is excluded at October 31, 2002. Written options are excluded as they represent our obligations and as such do not attract credit risk.

Derivative-related credit risk

	2002			2001		
	Replacement cost (1)	Credit equivalent amount (2)	Risk-adjusted balance (3)	Replacement cost (1)	Credit equivalent amount (2)	Risk-adjusted balance (3)
Interest rate contracts						
Forward rate agreements	**$ 178**	**$ 299**	**$ 64**	$ 108	$ 543	$ 114
Swaps	**19,608**	**24,357**	**6,323**	17,568	21,390	5,617
Options purchased	**563**	**914**	**258**	416	538	123
	20,349	**25,570**	**6,645**	18,092	22,471	5,854
Foreign exchange contracts						
Forward contracts	**6,802**	**13,049**	**3,685**	6,839	12,977	3,881
Swaps	**1,781**	**6,341**	**1,445**	1,902	5,536	1,261
Options purchased	**809**	**1,491**	**439**	721	1,339	441
	9,392	**20,881**	**5,569**	9,462	19,852	5,583
Credit derivatives (4)	**861**	**2,963**	**858**	87	1,249	369
Other contracts (5)	**849**	**1,701**	**529**	1,140	2,015	617
Derivatives before master netting agreements	**31,451**	**51,115**	**13,601**	28,781	45,587	12,423
Impact of master netting agreements	**(20,861)**	**(26,930)**	**(7,132)**	(18,832)	(24,450)	(6,339)
Total derivatives after master netting agreements	**$ 10,590**	**$ 24,185**	**$ 6,469**	$ 9,949	$ 21,137	$ 6,084

(1) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded instruments are subject to daily margin requirements and are excluded as they are deemed to have no additional credit risk. The fair value of $194 million (2001 — $194 million) is excluded at October 31, 2002. Written options are excluded as they represent our obligations and as such do not attract credit risk.

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

(3) Using guidelines issued by the Superintendent of Financial Institutions Canada.

(4) Comprises credit default swaps, total return swaps and credit default baskets.

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

NOTE 20 Concentrations of credit risk

Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of our performance to developments affecting a particular industry or geographic location. The concentrations described below are within limits as established by management.

	2002									2001								
	Canada	%	United States	%	Europe	%	Other International	%	Total	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets (1)	**$158,005**	**73%**	**$32,442**	**15%**	**$18,917**	**9%**	**$ 5,979**	**3%**	**$215,343**	$164,371	76%	$29,879	14%	$16,724	8%	$ 6,207	2%	$217,181
Off-balance sheet credit instruments (2)																		
Committed and uncommitted (3)	**$ 60,397**	**50%**	**$45,573**	**38%**	**$13,863**	**11%**	**$ 1,191**	**1%**	**$121,024**	$ 76,832	56%	$43,508	32%	$14,465	10%	$ 3,084	2%	$137,889
Other	**23,266**	**61**	**10,723**	**28**	**4,235**	**11**	**148**	**—**	**38,372**	20,990	59	9,893	28	4,436	12	331	1	35,650
	$ 83,663	**53%**	**$56,296**	**35%**	**$18,098**	**11%**	**$ 1,339**	**1%**	**$159,396**	$ 97,822	56%	$53,401	31%	$18,901	11%	$ 3,415	2%	$173,539
Derivatives before master netting agreements (4),(5)	**$ 7,734**	**25%**	**$ 9,887**	**31%**	**$12,232**	**39%**	**$ 1,598**	**5%**	**$ 31,451**	$ 6,899	24%	$ 9,154	32%	$11,741	41%	$ 987	3%	$ 28,781

(1) Includes assets purchased under reverse repurchase agreements, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 38% (2001 — 43%) and British Columbia at 11% (2001 — 11%). No industry accounts for more than 10% of total on-balance sheet credit instruments.

(2) Represents financial instruments with contractual amounts representing credit risk.

(3) Of the commitments to extend credit, the largest industry concentration relates to financial institutions at 35% (2001 — 34%), mining and energy at 15% (2001 — 15%), transportation at 8% (2001 — 10%) and manufacturing at 8% (2001 — 10%).

(4) The largest concentration by counterparty type of this credit risk exposure is with banks at 68% (2001 — 64%).

(5) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded instruments are subject to daily margin requirements and are excluded as they are deemed to have no additional credit risk. The fair value of $194 million (2001 — $194 million) is excluded at October 31, 2002. Written options are excluded as they represent our obligations and as such do not attract credit risk.

NOTE 21 Estimated fair value of financial instruments

The estimated fair values disclosed below are designed to approximate values at which these instruments could be exchanged in a current transaction between willing parties. However, many of the financial instruments lack an available trading market and therefore, fair values are based on estimates using net present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Furthermore, due to the use of subjective judgment and uncertainties, the aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The estimated fair values disclosed below do not reflect the value of assets and liabilities that are not considered financial instruments such as premises and equipment.

Financial assets and liabilities

	2002			2001		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Financial assets						
Cash resources	**$ 21,323**	**$ 21,323**	**$ —**	$ 17,535	$ 17,535	$ —
Securities	**93,800**	**94,251**	**451**	80,507	80,937	430
Assets purchased under reverse repurchase agreements	**35,831**	**35,831**	**—**	35,870	35,870	—
Loans	**169,258**	**171,546**	**2,288**	169,110	173,263	4,153
Customers' liability under acceptances	**8,051**	**8,051**	**—**	9,923	9,923	—
Other assets	**39,943**	**40,465**	**522**	37,865	37,915	50

Financial liabilities						
Deposits	**243,486**	**245,136**	**(1,650)**	233,447	236,196	(2,749)
Acceptances	**8,051**	**8,051**	**—**	9,923	9,923	—
Obligations related to securities sold short	**19,110**	**19,110**	**—**	16,443	16,443	—
Obligations related to assets sold under repurchase agreements	**21,109**	**21,109**	**—**	20,864	20,864	—
Other liabilities	**57,760**	**57,760**	**—**	51,918	51,198	—
Subordinated debentures	**6,614**	**6,935**	**(321)**	6,513	6,845	(332)

NOTE 21 Estimated fair value of financial instruments (continued)

Derivatives

	2002				2001	
	Average fair value for the year ended (1)		Year-end fair value		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative
Held or issued for trading purposes						
Interest rate contracts						
Forward rate agreements	**$ 96**	**$ 82**	**$ 178**	**$ 177**	$ 108	$ 79
Swaps	**13,650**	**14,323**	**18,468**	**18,930**	16,211	16,692
Options purchased	**385**	**—**	**564**	**—**	442	—
Options written	**—**	**325**	**—**	**474**	—	352
	14,131	**14,730**	**19,210**	**19,581**	16,761	17,123
Foreign exchange contracts						
Forward contracts	**7,539**	**6,934**	**6,568**	**6,260**	6,800	5,868
Cross currency swaps	**501**	**294**	**504**	**340**	518	315
Cross currency interest rate swaps	**1,462**	**1,853**	**1,109**	**1,678**	1,309	1,975
Options purchased	**827**	**—**	**809**	**—**	715	—
Options written	**—**	**729**	**—**	**586**	—	560
	10,329	**9,810**	**8,990**	**8,864**	9,342	8,718
Credit derivatives (2)	**273**	**259**	**822**	**483**	84	79
Other contracts (3)	**1,077**	**2,853**	**1,028**	**3,093**	1,012	2,650
	$ 25,810	**$ 27,652**	**30,050**	**32,021**	27,199	28,570
Held or issued for other than trading purposes						
Interest rate contracts						
Forward rate agreements			**—**	**49**	—	—
Swaps			**1,140**	**842**	1,357	1,104
Options purchased			**1**	**—**	—	—
Options written			**—**	**13**	—	—
			1,141	**904**	1,357	1,104
Foreign exchange contracts						
Forward contracts			**234**	**94**	39	313
Cross currency interest rate swaps			**168**	**24**	75	50
Options purchased			**—**	**—**	6	—
Options written			**—**	**3**	—	—
			402	**121**	120	363
Credit derivatives (2)			**39**	**8**	3	3
Other contracts (3)			**13**	**—**	296	48
			1,595	**1,033**	1,776	1,518
Total gross fair values before netting			**31,645**	**33,054**	28,975	30,088
Impact of master netting agreements						
With intent to settle net or simultaneously (4)			**(12)**	**(12)**	(39)	(39)
Without intent to settle net or simultaneously (5)			**(20,849)**	**(20,849)**	(18,793)	(18,793)
Total			**$ 10,784**	**$ 12,193**	$ 10,143	$ 11,256

(1) Average fair value amounts are calculated based on monthly balances.

(2) Comprises credit default swaps, total return swaps and credit default baskets.

(3) Comprises precious metals, commodity, equity-linked derivative contracts.

(4) Impact of offsetting credit exposures on contracts where we have both a legally enforceable master netting agreement in place and we intend to settle the contracts on either a net basis or simultaneously.

(5) Additional impact of offsetting credit exposures on contracts where we have a legally enforceable master netting agreement in place but do not intend to settle the contracts on a net basis or simultaneously.

Methodologies and assumptions used to estimate fair values of financial instruments

Loans The fair value of the business and government loans portfolio is based on an assessment of two key risks as appropriate; interest rate

risk and credit risk. Fair value is determined under a discounted cash flow methodology using a discount rate based on interest rates currently charged for new loans with similar terms and remaining maturities, adjusted for a credit risk factor, which is reviewed at least annually. Fair value of the consumer loan portfolio is based on a discounted cash flow methodology adjusted principally for prepayment risk. For certain variable rate loans that reprice frequently and loans without a stated maturity, fair values are assumed to be equal to carrying values.

Securities The fair values of securities are provided in the Securities note to the consolidated financial statements (note 5). These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.

Deposits The fair values of fixed rate deposits with a fixed maturity are determined by discounting the expected future cash flows, using market interest rates currently offered for deposits of similar terms and remaining maturities (adjusted for early redemptions where appropriate). The fair values of deposits with no stated maturity or deposits with floating rates are assumed to be equal to their carrying values.

Other assets/liabilities The carrying values of Other assets and Other liabilities approximate their fair values with the exception of amounts relating to derivative financial instruments held or issued for other than trading purposes. The net fair value over book value for these instruments is shown in Other assets.

Subordinated debentures The fair values of subordinated debentures are based on quoted market prices for similar issues, or current rates offered to us for debt of the same remaining maturity.

Financial instruments valued at carrying value Due to their short term nature, the fair value of cash resources, assets purchased under reverse repurchase agreements, customers' liability under acceptances, our liability under acceptances, obligations related to securities sold short and obligations related to assets sold under repurchase agreements is assumed to approximate carrying value.

Derivative financial instruments The fair values of derivative financial instruments are determined using various methodologies. For exchange-traded instruments, fair value is based on quoted market prices, where available. For non-exchange-traded instruments or where no quoted market prices are available, fair value is based on prevailing market rates for instruments with similar characteristics and maturities, net present value analysis or other pricing models as appropriate.

NOTE 22 Contractual repricing and maturity schedule

The table below details our exposure to interest rate risk as defined and prescribed by the Canadian Institute of Chartered Accountants handbook Section 3860, Financial Instruments — Disclosure and Presentation. On- and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing date or maturity date. Effective interest rates have been disclosed where applicable. The effective rates shown represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for floating-rate instruments or instruments carried at fair value.

The table below does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates. We incorporate these assumptions in the management of interest rate risk exposure. These assumptions include expected repricing of trading instruments and certain loans and deposits. Taking into account these assumptions on the consolidated contractual repricing and maturity schedule at October 31, 2002, would result in a change in the under-one-year gap from $(37.5) billion to $(3.7) billion (2001 — $(35.3) billion to $(19.1) billion).

Carrying amount by earlier of contractual repricing or maturity date

	Immediately rate-sensitive	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-sensitive	Total
Assets								
Cash resources	$ —	$ 16,483	$ 1,760	$ 2,013	$ 78	$ —	$ 989	$ 21,323
Effective interest rate		2.32%	2.16%	2.10%	2.21%			
Securities								
Trading account	—	13,400	4,483	3,358	10,634	12,131	24,322	68,328
Effective interest rate		2.31%	2.07%	2.96%	3.79%	4.73%		
Investment account and loan substitute	—	5,173	2,120	2,938	10,257	3,553	1,431	25,472
Effective interest rate		3.41%	3.00%	3.37%	3.88%	4.81%		
Assets purchased under reverse repurchase agreements	—	34,990	300	515	1	2	23	35,831
Effective interest rate		2.54%	2.86%	3.05%	2.94%	3.88%		
Loans	44,116	41,621	8,223	11,518	57,949	5,746	85	169,258
Effective interest rate		3.51%	4.74%	5.66%	6.03%	6.19%		
Other assets	—	—	—	—	—	—	56,744	56,744
	44,116	111,667	16,886	20,342	78,919	21,432	83,594	376,956
Liabilities								
Deposits	98,018	79,301	13,420	22,279	28,397	2,071	—	243,486
Effective interest rate		1.80%	2.28%	2.80%	4.06%	4.11%		
Obligations related to securities sold short	—	1,581	236	465	5,858	5,285	5,685	19,110
Effective interest rate		3.81%	2.77%	2.84%	3.71%	5.16%		
Obligations related to assets sold under repurchase agreements	—	19,874	516	667	—	—	52	21,109
Effective interest rate		2.54%	2.91%	3.05%				
Other liabilities	—	—	—	—	—	—	66,385	66,385
Subordinated debentures	—	1,348	—	100	3,263	1,903	—	6,614
Effective interest rate		2.40%	5.45%	6.25%	7.04%			
Non-controlling interest in subsidiaries	—	—	—	—	—	1,400	69	1,469
Effective interest rate						7.23%		
Shareholders' equity	—	—	—	—	700	845	17,238	18,783
Effective interest rate					6.40%	5.63%		
	98,018	102,104	14,172	23,511	38,218	11,504	89,429	376,956
On-balance sheet gap	(53,902)	9,563	2,714	(3,169)	40,701	9,928	(5,835)	—
Off-balance sheet financial instruments (1)								
Derivatives used for asset liability management purposes								
Pay side instruments	—	(36,659)	(734)	(2,442)	(23,421)	(4,655)	—	(67,911)
Effective interest rate		5.20%	5.32%	4.52%	5.14%	5.70%		
Receive side instruments	—	34,758	1,958	6,235	19,085	5,875	—	67,911
Effective interest rate		5.01%	3.61%	3.61%	5.34%	6.08%		
Derivatives used for trading purposes	—	2,223	(59)	2,033	(383)	2,731	(6,545)	—
Effective interest rate		2.82%	2.88%	2.98%	3.69%	5.04%		
	—	322	1,165	5,826	(4,719)	3,951	(6,545)	—
Total gap	$ (53,902)	$ 9,885	$ 3,879	$ 2,657	$ 35,982	$13,879	$ (12,380)	$ —
Canadian dollar	(28,828)	9,104	3,614	112	30,953	4,475	(19,896)	(466)
Foreign currency	(25,074)	781	265	2,545	5,029	9,404	7,516	466
Total gap	$ (53,902)	$ 9,885	$ 3,879	$ 2,657	$ 35,982	$13,879	$ (12,380)	$ —
Canadian dollar - 2001	(8,064)	(786)	(7,292)	(4,784)	38,156	1,759	(24,598)	(5,609)
Foreign currency - 2001	(18,137)	8,390	(4,529)	(136)	4,540	5,924	9,557	5,609
Total gap - 2001	$ (26,201)	$ 7,604	$(11,821)	$ (4,920)	$ 42,696	$ 7,683	$ (15,041)	$ —

(1) Represents net notional amounts.

NOTE 23 Reconciliation of Canadian and United States generally accepted accounting principles

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Superintendent of Financial Institutions Canada. As required by the United States Securities and Exchange Commission, material differences between Canadian and United States GAAP are described below.

Summary of reconciliation to U.S. GAAP

	2002			2001			2000		
	Net income	**Shareholders' equity**	**Assets**	**Net income**	**Shareholders' equity**	**Assets**	**Net income**	**Shareholders' equity**	**Assets**
Canadian GAAP	**$ 2,762**	**$ 18,783**	**$376,956**	$ 2,411	$ 18,165	$359,260	$ 2,274	$ 13,541	$289,740
Insurance accounting (1)	**72**	**92**	**1,969**	41	19	1,290	(29)	(13)	416
Derivative instruments and hedging activities (2)	**56**	**(72)**	**925**	(1)	(191)	1,235	—	—	—
Costs of Stock Appreciation Rights (3)	**10**	**7**	**(4)**	—	—	—	—	—	—
Additional pension obligation (4)	**—**	**(293)**	**167**	—	(17)	12	—	—	—
Reclassification of securities (5)	**—**	**210**	**210**	—	199	199	—	(56)	(46)
Trade date accounting (6)	**—**	**—**	**(146)**	—	—	(1,464)	—	—	419
Substantively enacted tax rate change (7)	**—**	**—**	**—**	(16)	—	—	16	16	16
Postretirement benefits other than pensions (8)	**—**	**—**	**—**	—	—	—	(35)	(163)	123
Pension benefits (8)	**—**	**—**	**—**	—	—	—	—	(27)	(27)
Other (9)	**(2)**	**28**	**1,855**	—	30	1,951	(18)	(1)	3,413
U.S. GAAP	**$ 2,898**	**$ 18,755**	**$381,932**	$ 2,435	$ 18,205	$362,483	$ 2,208	$ 13,297	$294,054
Earnings per share	**$ 4.16**			$ 3.58			$ 3.42		
Diluted earnings per share	**$ 4.12**			$ 3.55			$ 3.40		

(1) There are differences between U.S. and Canadian GAAP treatment with respect to life insurance premiums, investment accounting, acquisition costs and claims and policy benefit liabilities. These lead to timing differences in income and expense recognition. The application of U.S. GAAP to our insurance operations would increase Net income by $72 million for the year ended October 31, 2002. Differences with respect to deferred acquisition costs and claims and policy benefit liabilities would account for $24 million and $32 million of the increase, respectively. The increase would also include $16 million of realized gains on investments, which are taken into income as realized under U.S. GAAP but deferred and amortized under Canadian GAAP. Other assets and Other liabilities would increase by $1,969 million and $1,877 million, respectively and Shareholders' equity would increase by $92 million as at October 31, 2002.

(2) Under U.S. GAAP, all derivatives are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded in Net income, or if the derivative is designated and to the extent it functions effectively as a cash flow hedge, in Other comprehensive income within Shareholders' equity. For derivatives designated as fair value hedges, the changes recorded in Net income are generally offset by changes in the fair value of the hedged item attributable to the risk being hedged. The changes recorded in Other comprehensive income are subsequently amortized to Net income to offset the effects of interest rate variability on cash flows of the hedged item. Under Canadian GAAP, derivatives used in sales and trading activities are recorded on the balance sheet at fair value with changes in fair value recorded in Net income. Recording derivatives and hedging activities in accordance with U.S. GAAP would increase Net income by $56 million for the year ended October 31, 2002, increase Securities by $82 million, Loans by $62 million, Other assets by $811 million, Deposits by $175 million, Other liabilities by $476 million and Subordinated debentures by $346 million, and decrease Cash resources by $30 million, and Shareholders' equity by $72 million as at October 31, 2002.

(3) Between November 29, 1999 and June 5, 2001, grants of options under the employee stock option plan were accompanied by tandem stock appreciation rights (SARs). With SARs, participants could choose to exercise a SAR instead of the corresponding option. In such cases, the participants received a cash payment equal to the difference between the closing price of common shares on the day immediately preceding the day of exercise and the exercise price of the option. For such plans, compensation expense under U.S. GAAP would be measured using estimates based on past experience of participants exercising SARs rather than the corresponding options. However, Canadian GAAP considers such a plan to result in a liability and requires measurement of compensation expense assuming that all participants will exercise SARs. Recognizing compensation expense in accordance with U.S. GAAP would increase Net income by $10 million for the year ended October 31, 2002 and reduce Other liabilities by $11 million as at October 31, 2002. The related income tax effects would reduce Other assets by $4 million and Shareholders' equity would increase by $7 million as at October 31, 2002.

(4) For defined benefit pension plans, U.S. GAAP requires that the excess of the unfunded accumulated benefit obligation over the unrecognized prior service cost be recorded in Other comprehensive income. Recognition of this additional pension obligation would increase Other liabilities by $460 million, the related deferred income taxes would increase Other assets by $167 million and Shareholders' equity would decrease by $293 million as at October 31, 2002.

(5) Under U.S. GAAP, Securities are classified as Trading account (carried at estimated fair value) or Available for sale (carried at estimated fair value). The net unrealized gain (loss) on Available for sale securities, net of related income taxes, is reported as Other comprehensive income within Shareholders' equity except where the changes in market value are effectively hedged by derivatives. These hedged unrealized gains (losses) are recorded in Net income, where they are generally offset by the changes in fair value of the hedging derivatives. Under Canadian GAAP, Securities are classified as Investment account (carried at amortized cost) or Trading account (carried at estimated fair value). Classifying Securities in accordance with U.S. GAAP would increase Securities by $342 million, decrease the related deferred income taxes included in Other assets by $132 million, and increase Shareholders' equity by $210 million as at October 31, 2002.

(6) Under U.S. GAAP, trade date accounting for Securities is used for both the Consolidated balance sheet and the consolidated statement of income. Our practice under Canadian GAAP is settlement date accounting for the Consolidated balance sheet and trade date accounting for the consolidated statement of income. The application of trade date accounting to our Consolidated balance sheet would decrease Securities by $220 million and Other liabilities by $146 million, and increase Other assets by $74 million as at October 31, 2002.

(7) Under U.S. GAAP, the effects of changes in tax rates on deferred income taxes are recorded when the tax rate change has been passed into law. Under Canadian GAAP, these effects are recorded when the tax rate change has been substantively enacted. The reductions in the corporate tax rate announced during calendar year 2000 and considered substantively enacted then, were passed into law in 2001.

(8) We adopted the new accounting standard issued by the CICA for *Employee Future Benefits* which requires us to accrue the costs of all postretirement benefits over the working lives of employees instead of the previous method of expensing costs when paid. The new standard also requires a change to the discount rate used to value future benefit obligations from an estimated long-term rate to a market-based interest rate. As a result of adopting this new standard on November 1, 2000, there are no longer differences between Canadian and U.S. GAAP related to employee future benefits accounting except as noted in footnote (4).

(9) Other differences between U.S. and Canadian GAAP relate to the right of offset, accounting for joint ventures and other minor items. Investments in joint ventures are proportionately consolidated under Canadian GAAP and accounted for under the equity method under U.S. GAAP. Accounting for joint ventures in accordance with U.S. GAAP would not affect Net income. The net of these items would reduce Net income by $2 million for the year ended October 31, 2002, increase Shareholders' equity by $28 million, Assets by $1,855 million and Liabilities by $1,827 million as at October 31, 2002.

Quarterly highlights

($ millions, taxable equivalent basis, except per share and percentage amounts)	2002 Q4	2002 Q3	2002 Q2	2002 Q1	2001 Q4	2001 Q3	2001 Q2	2001 Q1
Consolidated statement of income								
Net interest income	**$ 1,815**	**$ 1,768**	**$ 1,746**	**$ 1,869**	$ 1,784	$ 1,719	$ 1,580	$ 1,466
Other income	**2,043**	**2,104**	**2,192**	**2,223**	2,255	2,008	1,924	2,028
Provision for credit losses	**(235)**	**(216)**	**(328)**	**(286)**	(425)	(236)	(210)	(248)
Non-interest expense	**(2,634)**	**(2,547)**	**(2,583)**	**(2,656)**	(2,668)	(2,638)	(2,287)	(2,162)
Income taxes	**(295)**	**(385)**	**(324)**	**(401)**	(262)	(333)	(376)	(401)
Non-controlling interest	**(28)**	**(27)**	**(26)**	**(27)**	(28)	(28)	(29)	(22)
Net income	**$ 666**	**$ 697**	**$ 677**	**$ 722**	$ 656	$ 492	$ 602	$ 661
Cash net income (1)	**$ 683**	**$ 713**	**$ 691**	**$ 739**	$ 778	$ 573	$ 651	$ 691
Core cash net income (1)	**$ 683**	**$ 713**	**$ 691**	**$ 739**	$ 539	$ 660	$ 651	$ 613
Earnings per share (2)								
Basic	**$ .96**	**$ 1.00**	**$ .97**	**$ 1.03**	$ .92	$ .69	$ .92	$ 1.03
Diluted	**.95**	**.99**	**.96**	**1.03**	.91	.68	.92	1.02
Cash diluted (1)	**.98**	**1.01**	**.98**	**1.05**	1.09	.81	1.00	1.07
Core cash diluted (1)	**.98**	**1.01**	**.98**	**1.05**	.74	.94	1.00	.95
Performance ratios								
Return on common equity	**14.8%**	**15.6%**	**16.0%**	**16.9%**	15.2%	12.5%	18.7%	20.8%
Cash return on common equity (1)	**15.2**	**16.0**	**16.4**	**17.3**	18.1	14.7	20.3	21.7
Core cash return on common equity (1)	**15.2**	**16.0**	**16.4**	**17.3**	12.3	17.1	20.3	19.2
Return on assets	**.70**	**.76**	**.76**	**.79**	.76	.58	.77	.86
Return on assets after preferred dividends	**.67**	**.73**	**.73**	**.76**	.72	.53	.72	.82
Net interest margin (3)	**1.91**	**1.93**	**1.95**	**2.05**	2.07	2.01	2.01	1.91
Other income as a % of gross revenues	**53.0**	**54.3**	**55.7**	**54.3**	55.8	53.9	54.9	58.0
Consolidated balance sheet								
Assets								
Cash resources and securities	**$ 115,123**	**$ 111,813**	**$ 107,785**	**$ 101,795**	$ 98,042	$ 93,569	$ 86,075	$ 80,712
Assets purchased under reverse repurchase agreements	**35,831**	**34,938**	**33,373**	**30,503**	35,870	25,101	26,453	21,713
Residential mortgages	**72,840**	**70,639**	**70,116**	**69,436**	67,442	66,497	64,557	63,418
Personal loans	**31,956**	**32,222**	**32,292**	**31,600**	32,511	32,264	29,713	30,573
Credit card loans	**4,914**	**4,774**	**4,445**	**4,338**	4,283	4,128	4,862	4,961
Business and government loans	**61,751**	**64,138**	**63,554**	**64,234**	67,152	65,309	60,053	60,273
Allowance for loan losses	**(2,203)**	**(2,218)**	**(2,338)**	**(2,345)**	**(2,278)**	(2,173)	(1,951)	(1,947)
Other assets	**56,744**	**57,135**	**47,090**	**54,152**	56,238	45,279	43,962	42,207
	$ 376,956	**$ 373,441**	**$ 356,317**	**$ 353,713**	$ 359,260	$ 329,974	$ 313,724	$ 301,910
Liabilities and shareholders' equity								
Personal deposits	**$ 101,892**	**$ 101,072**	**$ 99,990**	**$ 100,505**	$ 101,381	$ 98,970	$ 93,010	$ 90,778
Business, government and bank deposits	**141,594**	**143,383**	**135,888**	**133,659**	132,066	123,321	118,326	112,344
Other liabilities	**106,604**	**101,628**	**93,377**	**92,773**	99,656	81,268	79,321	76,704
Subordinated debentures	**6,614**	**7,043**	**7,025**	**7,105**	6,513	6,488	6,836	6,275
Non-controlling interest in subsidiaries	**1,469**	**1,444**	**1,466**	**1,440**	1,479	1,453	1,481	1,453
Total equity	**18,783**	**18,871**	**18,571**	**18,231**	18,165	18,474	14,750	14,356
	$ 376,956	**$ 373,441**	**$ 356,317**	**$ 353,713**	$ 359,260	$ 329,974	$ 313,724	$ 301,910
Selected average balances and off-balance sheet data								
Averages								
Assets	**$ 377,700**	**$ 362,900**	**$ 366,300**	**$ 362,400**	$ 342,200	$ 339,000	$ 321,900	$ 304,400
Loans, acceptances and reverse repurchase agreements	**217,168**	**208,338**	**207,531**	**209,439**	205,275	205,241	197,328	191,231
Deposits	**247,258**	**236,918**	**237,479**	**239,838**	230,292	221,167	212,813	206,975
Common equity	**17,170**	**17,055**	**16,681**	**16,365**	16,349	14,466	12,496	11,983
Total equity	**18,833**	**18,747**	**18,387**	**18,149**	18,433	16,633	14,541	14,016
Assets under administration	**1,365,900**	**1,413,100**	**1,442,800**	**1,426,600**	1,342,500	1,271,800	1,198,700	1,242,800
Assets under management	**90,800**	**94,200**	**96,200**	**103,300**	100,000	110,500	110,400	112,500
Provision for credit losses								
Specific	**$ 235**	**$ 216**	**$ 328**	**$ 286**	$ 425	$ 236	$ 210	$ 178
General provision								
General allocated	**(15)**	**4**	**—**	**(11)**	108	—	—	97
General unallocated	**15**	**(4)**	**—**	**11**	(108)	—	—	(27)
Total general provision	**—**	**—**	**—**	**—**	—	—	—	70
Total	**$ 235**	**$ 216**	**$ 328**	**$ 286**	$ 425	$ 236	$ 210	$ 248
Net impaired loans as a % of loans, acceptances and reverse repurchase agreements	**.04%**	**.07%**	**.09%**	**.18%**	.08%	.01%	.02%	(.11)%

Capital ratios								
Common equity/risk-adjusted assets	**10.4%**	**10.2%**	**10.0%**	**9.8%**	**9.4%**	9.5%	8.0%	7.6%
Tier 1	**9.3**	**9.1**	**9.0**	**8.8**	8.7	9.3	8.8	8.3
Total	**12.7**	**12.7**	**12.6**	**12.3**	11.8	12.3	12.3	11.5
Common share information								
Shares outstanding (in thousands)								
End of period	**665,257**	**671,671**	**673,860**	**673,596**	674,021	683,312	616,516	616,209
Average basic	**668,868**	**673,787**	**673,751**	**674,465**	681,758	658,296	616,365	608,824
Average diluted	**674,840**	**679,168**	**678,751**	**679,729**	687,334	663,996	621,907	614,686
Dividends per share	**$ .40**	**$ .38**	**$ .38**	**$ .36**	$ .36	$ .36	$ .33	$ .33
Book value per share	**25.91**	**25.56**	**25.04**	**24.53**	23.95	23.68	20.61	20.01
Common share price — High (4)	**57.55**	**58.89**	**57.07**	**52.45**	53.25	51.50	51.25	52.80
Low (4)	**48.80**	**45.05**	**46.36**	**46.81**	41.60	42.80	42.42	45.10
Close	**54.41**	**53.45**	**54.97**	**50.00**	46.80	50.96	42.95	48.20
Dividend yield	**3.0%**	**2.9%**	**2.9%**	**2.9%**	3.0%	3.1%	2.8%	2.7%
Dividend payout ratio	**41%**	**38%**	**39%**	**35%**	39%	54%	36%	32%

(1) Cash net income, cash diluted earnings per share and cash return on common equity are computed by adding back to net income the after-tax amount of amortization of goodwill and other intangibles. Further deducting the impact of special items results in core cash net income, core cash diluted earnings per share and core cash return on common equity.

(2) Earnings per share for the year may not equal the sum of the quarters.

(3) Net interest income as a percentage of average assets.

(4) Intraday high and low share price.

EXHIBIT 4

INDEPENDENT AUDITORS' CONSENT

We consent to the inclusion of our reports dated November 19, 2002 appearing in this Annual Report on Form 40-F of Royal Bank of Canada for the year ended October 31, 2002.

"Deloitte & Touche LLP"
Chartered Accountants
Toronto, Ontario
November 19, 2002

"PricewaterhouseCoopers LLP"
Chartered Accountants
Toronto, Ontario
November 19, 2002

EXHIBIT 5

COMMENTS BY AUDITORS ON CANADA-UNITED STATES OF AMERICA REPORTING DIFFERENCE

In the United States, reporting standards for auditors require to addition of an explanatory paragraph (following to opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the company's financial statements, such as the change described in Note 4 to the financial statements. Our reports to the shareholders dated November 19, 2002 are expressed in accordance with Canadian reporting standards, which do not require a reference to such a change in accounting principles in the auditors' reports when the change is properly accounted for and adequately disclosed in the financial statements

"Deloitte & Touche LLP"
Chartered Accountants
Toronto, Ontario
November 19, 2002

"PricewaterhouseCoopers LLP"
Chartered Accountants
Toronto, Ontario
November 19, 2002