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

FORM 40-F

[Check one]

o 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, 2003 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 R. Crawshaw
Sullivan & Cromwell LLP
125 Broad Street
New York, New York 10004-2498
(212) 558-4000

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	656,021,122
First Preferred Shares,	
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 o 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 o

INCORPORATION BY REFERENCE

Exhibits 1 to 3 and 5 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.

DISCLOSURE CONTROLS AND PROCEDURES

As of October 31, 2003, 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-15) 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.

AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's board of directors has determined that it has at least one audit committee financial expert serving on its audit committee. Mr. Pedro Reinhard has been determined to be such audit committee financial expert and is independent, as that term is defined by the New York Stock Exchange's listing standards applicable to the Registrant. The SEC has indicated that the designation of Mr. Reinhard as an audit committee financial expert does not make Mr. Reinhard an "expert" for any purpose, impose any duties, obligations or liability on Mr. Reinhard that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the audit committee.

CODE OF ETHICS

The Registrant has adopted a code of ethics (the "Code of Conduct") that applies to all employees and officers, including its principal executive officer, principal financial officer and principal accounting officer. The Code of Conduct is available at the Registrant's Internet website, www.rbc.com.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Deloitte & Touche LLP has served as one of the Registrant's auditing firms for the previous six years, and became the Registrant's sole auditor in 2003. Fees payable for the years ended October 31, 2003 and October 31, 2002 to Deloitte & Touche LLP and its affiliates are $22.0 million and $12.6 million. Fees payable to auditors in 2003 and 2002 are detailed below.

	Year ended October 31, 2003	Year ended October 31, 2002	Year ended October 31, 2002	Year ended October 31, 2002
($ Millions)	Deloitte & Touche LLP	Total Deloitte & Touche LLP and PricewaterhouseCoopers LLP	Deloitte & Touche LLP	PricewaterhouseCoopers LLP
Audit fees	$14.8	$12.2	$ 6.4	$ 5.8
Audit-related fees	1.5	5.6	1.3	4.3
Tax fees	1.4	2.0	1.0	1.0
All other fees	4.3	12.1	3.9	8.2
	$22.0	$31.9	$12.6	$19.3

PricewaterhouseCoopers LLP also served as one of the Registrant's auditing firms until September 23, 2003. Up to its resignation on September 23, 2003, fees payable to PricewaterhouseCoopers LLP and its affiliates were approximately $10.0 million. For 2003, fees payable to Deloitte & Touche LLP and PricewaterhouseCoopers LLP were $32.0 million in total. The fees for 2002 have been reclassified consistent with the categories and reporting for 2003.

The nature of each category of fees is described below.

Audit Fees

Audit fees were paid for professional services rendered by the auditors for the audit of the Registrant's annual financial statements or services provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual financial statements and are not reported under the audit fees item above. These services consisted of: special attest services as required by various government entities; reporting on the effectiveness of internal controls as required by contract or for business reasons including the reporting on internal controls for pension custody clients; accounting consultations and special audits in connection with acquisitions; the audit of the financial statements of the Registrant's various pension plans and charitable foundation; the audits of various trusts and other entities as required in connection with the securitization of credit cards and mortgages loans; and the audit of certain special purpose vehicles relating to complex structured products.

Tax Fees

Tax fees were paid for tax compliance, tax advice and tax planning professional services. These services consisted of: tax compliance including the review of original and amended tax returns, assistance with questions regarding tax audits, the preparation of employee tax returns under the Registrant's expatriate tax services program and assistance in completing routine tax schedules and calculations; and tax planning and advisory services relating to common forms of domestic and international taxation (i.e., income tax, capital tax, Goods and Services Tax and Value Added Tax).

All Other Fees

Fees disclosed in the table above under the item "all other fees" were paid for products and services other than the audit fees, audit-related fees and tax fees described above. These services consisted of:

- Business recovery services where the auditor: acts as privately appointed receiver and manager pursuant to the terms of a security instrument held by the Registrant or a syndicate of banks; conducts a business review of a debtor on behalf of the Registrant pursuant to the terms of an engagement letter which is entered into with the Registrant and agreed to by the debtor; and acts as monitor under private appointment which may be subject to an appointment by the Registrant or the debtor; and

- French translation of: the annual consolidated financial statements and management's discussion and analysis for the year ended October 31, 2003; interim consolidated financial statements and quarterly reports to shareholders; financial information included in the annual information form, prospectuses and other offering documents; certain newsletters and other press releases related to the payment of dividends; and certain sections of the Annual Report to Shareholders.

Pre-Approval Policies and Procedures

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence and has adopted a policy governing the provision of these services. This policy is set forth in Exhibit 7. For the year ended October 31, 2003, none of the services described above were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

OFF-BALANCE SHEET ARRANGEMENTS

See pages 63 to 65 of Exhibit 2 and pages 63A to 65A of Exhibit 3.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

See page 63 of Exhibit 2 and page 63A of Exhibit 3.

IDENTIFICATION OF THE AUDIT COMMITTEE

See page 23 of Exhibit 1.

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: /s/ “Gordon M. Nixon”

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

Date: December 29, 2003

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

INDEX TO EXHIBITS

Exhibit No.	Exhibit
1.	Royal Bank of Canada Annual Information Form dated December 16, 2003
2.	Financial Review (U.S. GAAP) Caution Regarding Forward Looking Statements (U.S. GAAP) Management Discussion and Analysis (U.S. GAAP) Management's Responsibility for financial reporting (U.S. GAAP) Auditors' Report (U.S. GAAP) Consolidated Financial Statements (U.S. GAAP) Quarterly Highlights
3.	Financial Review (Canadian GAAP) Caution Regarding Forward Looking Statements (Canadian GAAP) Management Discussion and Analysis (Canadian GAAP) Management's Responsibility for financial reporting (Canadian GAAP) Auditors' Report (Canadian GAAP) Consolidated Financial Statements (Canadian GAAP) Reconciliation of Canadian and U.S. Generally Accepted Accounting Principles Quarterly Highlights
4.	Consent of auditors
5.	Reporting difference comments
6.	Auditors' Reports (2002)
7.	Audit Committee Pre-Approval Policies and Procedures
31.	Rule 13a-14(a)/15d-14(a) Certifications Certification of the Registrant's Chief Executive Officer Certification of the Registrant's Chief Financial Officer
32.	Section 1350 Certifications Certification of the Registrant's Chief Executive Officer Certification of the Registrant's Chief Financial Officer

EXHIBIT 1



ROYAL BANK OF CANADA

ANNUAL INFORMATION FORM

December 16, 2003

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Unless otherwise specified, this annual information form presents information as at October 31, 2003.

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 26.

BUSINESS

Overview — Royal Bank of Canada, stock symbol RY on the Toronto Stock Exchange ("TSX") and New York Stock Exchange ("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 60,812 employees on a full-time equivalent basis worldwide. The delivery network includes 2,085 service delivery units, and 4,401 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") and its RBC Mortgage subsidiary and RBC Builder Finance division. 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 throughout the U.S.;
- In the Caribbean and Bahamas, RBC Banking operates through RBC Royal Bank of Canada, as well as through residential mortgage focused Finance Corporation of Bahamas Limited ("FINCO") in the Bahamas.

RBC Banking delivers services through approximately 1,104 branches in Canada, 242 in the U.S. (through RBC Centura), and 43 in the Caribbean; approximately 4,401 automated banking machines, of which approximately 279 are in the U.S., and 60 are in the Caribbean; as well as via telephone and the Internet. The segment employs over 37,000 people on a full-time equivalent basis (FTE), plus a mobile sales staff of over 800 mortgage representatives and 530 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 November 2003, RBC Centura acquired Ohio based Provident Financial Group's Florida branch and ATM network for approximately US$80 million cash. In September 2003, RBC Mortgage Company acquired Sterling Capital Mortgage Company for approximately US$100 million. In January 2003, RBC Centura completed the acquisition of Admiralty Bancorp, Inc. a Florida-based financial holding company, for US$153 million. In July 2002, RBC Centura acquired Eagle Bancshares, Inc. and its subsidiary, Tucker Federal Bank, based in the Atlanta, Georgia metropolitan area for US$149 million. In June 2002, RBC Centura converted 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 platform: Royal Bank of Canada, Royal Bank Mortgage Corporation, Royal Mutual Funds Inc., RBC Centura Bank, RBC Mortgage Company, Finance Corporation of Bahamas Limited ("FINCO"), Royal Trust Corporation of Canada, The Royal Trust Company.

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. 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. 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. — distribute travel insurance products and services to North American clients 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 and Genelco also offers a full spectrum of administration and outsourcing as well as software solutions to the insurance and financial services industry.

- RBC Insurance Services Inc. — administers the creditor insurance products and services for individual and business clients of the bank.

In May 2003, RBC Insurance completed the acquisition of certain assets of Business Men's Assurance Company of America (BMA) from the Generali Group, a Trieste, Italy-based insurer, for approximately US$207 million. These assets comprised the operations of Business Men's Assurance Company of America (BMA) and included the infrastructure for manufacturing variable insurance products as well as a closed block of approximately 135,000 policies. 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 platform: 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, Business Men's Assurance Company of America, The Liberty Marketing Corporation.

RBC Investments — The wealth management division focuses on the investment needs of private clients, high net worth individuals and families, small businesses and entrepreneurs. This segment uses different distribution brand names. RBC Investments is the brand name used by the wealth management businesses in Canada.

Dominion Securities is the largest full service brokerage firm in Canada, based on assets under administration, and has over 1,320 investment advisors and $100 billion in assets under administration. Action Direct is the second-largest Canadian self-directed brokerage service as measured by number of accounts. Private Counsel, Private Banking, and Trust Services offer a relationship management approach to high net worth clients in need of sophisticated solutions across Canada. Financial Planning is a business operated jointly by RBC Investments with RBC Banking. This business serves domestic clients in existing relationships with bank branches with more than $50,000 in investable assets of which a portion typically includes mutual funds or managed products. Financial Planning has 1,030 relationship financial planners and 530 commission-based investment and retirement planners who are also financial planners and licensed mutual funds sales people.

In the United States, RBC Dain Rauscher is the brand name used. RBC Dain Rauscher is the eighth largest full-service securities firm in the U.S., with nearly 1,750 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, 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. In April 2003, a decision was made to include the International Advisory Group, which has both Canadian and International-based employees serving the brokerage needs of international clients, with Global Private Banking. This will better align the International Advisory Group directly with its international clients.

In addition to the distribution businesses above, the Global Asset Management business of RBC Investments provides investment management products and services primarily through RBC Asset Management, which became Canada's largest fund company in 2003 (as measured by assets under management). In July 2003, RBC Funds Inc. and RBC Global Investment Management Inc. were combined to form RBC Asset Management Inc., which currently manages over $43 billion of assets in mutual and pooled funds and other client assets. RBC Asset Management 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 July 2003, RBC Asset Management announced the combining and renaming of its families of mutual funds — Royal Mutual Funds and RBC Advisor Funds — under a single product line known as RBC Funds. Global Asset Management also provides 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. Beginning in 2004, Global Asset Management will also include Voyageur Asset Management, our U.S. based asset management company which manages US$21 billion in mutual funds and institutional mandates, and that was previously reported under RBC Dain Rauscher.

In March 2003, RBC Dain Rauscher acquired West Paterson, New Jersey-based First Institutional Securities. In May 2003, RBC Dain Rauscher closed its acquisition of Jones & Babson Inc., an asset management firm based in Kansas City. The purchase was part of a larger agreement by RBC Insurance to acquire Missouri-based Business Men's Insurance Company of America (BMA), a subsidiary of the Generali Group. 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 platform: 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 Asset Management 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 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 six operating divisions:

- Global Financial Products — This division brings 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.

- Global Investment Banking — In February 2003 the Capital Markets Services division split into its two component parts — Global Investment Banking and Global Equity — primarily to address the changes in the regulatory and governance environments which require the separation of research and investment banking activities. The Global Investment Banking division houses the corporate and investment banking businesses and offers a full range of credit and corporate finance products including debt and equity underwriting, mergers & acquisitions (M&A) advice and execution and financial sponsorship coverage. The division

is organized along North American industry sectors. While we cover all industries in Canada, in the U.S., we have expertise in the energy, technology, communications, health care, consumer products, and mid-size financial institutions sectors.

- Global Equity — This division provides expertise in research and equity sales and trading of listed securities and the distribution of new issues.

- Global Treasury Services — This division 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 delivers 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. 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 New York and London.

The following are the principal RBC Financial Group companies that provide products and services under the RBC Capital Markets platform: 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 Finance B.V., RBC Capital Markets Arbitrage LLC, RBC Capital Markets Arbitrage S.A.

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, principally in the United Kingdom and Australia. Key businesses include global custody, investment administration, correspondent banking, cash management, payments, and trade finance. The bank's 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 divisions 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 10th largest custodian globally as measured by assets under administration. It operates from 12 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 platform: 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 other banks, 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 it operates in Canada. For example, in personal and commercial banking, its market share of residential mortgages and business loan balances were 14.87% and 11.49% respectively, at August 31, 2003 — the highest in Canada. In wealth management, the bank has the leading full service brokerage operation as measured by assets under management, and the second largest Canadian self-directed broker, RBC Action Direct, as measured by number of accounts. RBC Asset Management became Canada's largest mutual fund company in 2003, as measured by assets under management, with net assets of over $43 billion as of October 31, 2003. 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$10 billion for the first nine months of calendar 2003, and its foreign exchange business is ranked among the top 15 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.

With the large number of players in the Canadian financial industry and the limited number of consumers, the natural progression of the industry is towards consolidation. However, in 1998 the Canadian government put a restriction on mergers of banks pending further review. As a result, Canadian banks, including the bank have made significant investments in the U.S. financial services market over the last several years in order to increase revenues and returns. The geographical proximity as well as the similar language and culture make the U.S. market attractive. Structurally, the U.S. financial services industry is fragmented, comprised of a number of monoline service providers, however the environment is also extremely competitive, dominated by both global players and niche companies.

A series of targeted acquisitions has led the bank to become an established player across different lines of businesses in the U.S. In retail banking, RBC Centura is ranked sixth by bank deposits in North Carolina, and ninth in bank deposits 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 eighth 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 — The bank's objective is to expand its businesses both organically as well as through specific targeted acquisitions in line with its financial targets and overall strategy. The bank has four key strategic priorities: strong fundamentals, North American expansion, superior client experience, and cross-enterprise leverage.

The bank's strong position in the Canadian market is the foundation for its U.S. expansion, given the limited opportunities for growth in Canada. 12 acquisitions across 4 business platforms have been made since the spring of 2000. As a result of this diversified U.S. expansion, the revenue proportion contributed from the U.S. has grown to 28% of total revenues in 2003 from a 7% contribution in 2000. Contribution to net income from the U.S. has increased as well to 13% in 2003 from 3% in 2000.

Summarized in the following table are the bank's major acquisitions over the past three financial years and to date in the 2004 financial year:

BUSINESS	ACQUISITION	KEY CHARACTERISTICS (1)
RBC Banking	Provident Financial Group Inc. — Florida Branch Network (2004)	• RBC Centura acquired Florida operations of Ohio-based Provident Financial Group for approximately US$80 million cash • Continued expansion into high-growth Florida market • 13 branches, 16 ATM's, US$500 million in assets under administration • As at April 30, 2003: Loans of US$350 million and deposits of US$750 million
	Sterling Capital Mortgage Company (2003)	• RBC Mortgage Co. acquired 100% of the outstanding shares of Sterling Capital Mortgage Company (SCMC) from Sterling Bancshares Inc. • Purchase price approximately US$100 million • 110 branches in 16 states and 16 Affiliated Business Arrangements joint ventures that SCMC co-owns with residential home builders • Mortgage origination of US$4.5 billion in fiscal 2002 and US$3.4 billion in the first six months of 2003
	Bank One Corporation — Wholesale First Mortgage and Broker Home-Equity Origination Capabilities (2003)	• RBC Mortgage Co. acquired Bank One's wholesale First Mortgage and Broker Home-Equity Origination Capabilities • Terms of the deal were not disclosed • 200 employees • In 2002, Bank One's wholesale business generated more than US$3 billion in first mortgages
	Admiralty Bancorp, Inc (2003)	• Purchase price of US$153 million cash • 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 US$1.1 billion in assets, US$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
RBC Insurance	Business Men's Assurance Company of America — U.S. variable life insurance business (2003)	• Along with the mutual fund company, Jones & Babson, total consideration was approximately US$207 million • Leverages RBC Liberty Insurance outsourcing and administration capability, adds variable insurance products and fixed annuities to the company's product portfolio 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
RBC Investments	First Institutional (2003)	• RBC Dain Rauscher Inc., acquired certain assets of West Paterson, N.J.-based First Institutional Securities, LLC, • A privately held firm that serves both institutional and high-net-worth retail clients throughout the United States • Terms of the transaction were not disclosed. • Allows RBC Dain Rauscher to penetrate the important New York-New Jersey metro market.

BUSINESS	ACQUISITION	KEY CHARACTERISTICS (1)
RBC Investments	Jones & Babson Inc (Business Men's Assurance Company of America's Mutual Fund company) (2003)	• Mutual Fund Company. Along with the U.S. direct life insurance operations, total consideration approximately US $207 million (of which Jones & Babson was US$19 million) • Builds cross platform capability for wealth management products
	Barclays' private banking operations in the Americas (2002)	• Final purchase price of US$120 million • Offices in New York, and Miami complement existing Royal Bank of Canada 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
	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 at time of purchase
	Dain Rauscher Corporation (2001)	• US$1.227 billion paid 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
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 the North-American market, the bank will continue to pursue highly profitable niche lines of business in which the bank enjoys a competitive advantage. This includes but is not limited to global custody, global private banking, and foreign exchange services. In all these three lines of business, the bank is enjoying a strong position globally while generating attractive returns.

Looking for opportunities to improve on current performance, cross-enterprise leverage is a key focus for the bank. The bank's diversified business mix, strong market positions, sizeable customer base (over 12+ million) and strengths in customer relationship management will help it to reduce costs and increase revenue growth by applying knowledge across businesses and platforms. Being able to leverage expertise from one line of business to another will help the bank reduce costs through elimination of duplication, enterprise-wide review of functions, creation of centers of expertise and centralized purchasing initiatives.

With the large number of companies offering financial services, the competition to earn clients and hence gain market share has intensified over the last number of years. "Always earning the right to be our clients' first choice" is a new vision for the bank (introduced in fiscal 2003), and reinforces the bank's commitment to client satisfaction, retention, and growing its share of clients' business. In order to achieve the strategic priority of superior client experience, the bank will focus on providing a better client experience across all distribution channels. In addition, the bank will streamline processes to become more efficient.

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 the Insurance Companies Act (Canada).

The Superintendent of Financial Institutions (the "Superintendent") is responsible to the Minister of Finance (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"), 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. "Consumer provisions" under the Insurance Companies Act are those dealing with customer complaint procedures and disclosure obligations regarding borrowing.

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 in respect of their activities in the provinces.

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 a self

regulatory organization (the Investment Dealers Association for broker dealers and the Mutual Fund Dealers Association for mutual fund dealers).

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 the Standards of Sound Business and Financial Practices By-laws. This requires 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 a developed understanding of, and processes to deal with, the risks inherent in the business — including credit, market, structural, fiduciary and operational risk — and to ensure appropriate and effective liquidity, funding and capital management. 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 periodically report to CDIC on the criteria, methods and means that enable senior management and the board to ensure compliance with the standards.

The level of premiums and the frequency of the filing of reports with the CDIC are 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.

RBC Life Insurance Company is subject to the Superintendent's Standards of Sound Business and Financial Practices and is a member of the Canadian Life and Health Insurance Compensation Corporation. RBC Travel Insurance Company and RBC General Insurance Company are members of the Property and Casualty Insurance Compensation Corporation.

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 Canadian insurance subsidiaries must also meet minimum capital standards set by the Superintendent.

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) and RBC Capital Trust II (an open-end trust), each of 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 for a period of up to 12 months.

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 bank-related 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 Bank Act also limits the types of entities that a bank may control, either in law or in fact.

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; in foreign regulated 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.

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 a 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 — The Proceeds of Crime (Money Laundering) and Terrorist Financing Act implements measures to assist in detecting, deterring and facilitating the investigation of money laundering and terrorist financing 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. 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 or terrorist financing activity offence, and cash 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.

The Canadian Criminal Code prohibits 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 anti-money laundering and anti-terrorism regulatory requirements.

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GOVERNMENT SUPERVISION AND REGULATION — UNITED STATES

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. 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 and 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. The bank's Delaware representative office is licensed and regulated by the state of Delaware. Representative offices are limited in their activities and may not take deposits or make loans.

The Comptroller and the state regulators of Florida, Texas, Connecticut and Delaware 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 in which it maintains a branch or agency. 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, and 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, such branches may not engage in retail deposit-taking or obtain FDIC insurance.

Since March 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. In addition, its U.S. depository institution subsidiaries must also meet certain capital requirements and be deemed to be “well managed”.

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, 2003.

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, 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 in 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 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 and RBC Dain Rauscher Corp., from disclosing non-public 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 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 the bank and its branches and agencies), deposit reserve requirements and other requirements administered by the Federal Reserve and the NC Commissioner. 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, the bank 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 the bank 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, regulators assess RBC Centura Bank's record in meeting the credit needs of the communities serviced by it, 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 rated "satisfactory".

U.S. FDIC-insured banks are also subject to FDIC insurance assessments, which may depend on the level of capitalization of the insured 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 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 the bank or RBC Centura Bank is in a position to predict at this time.

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

USA Patriot Act — In October 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 Act imposes significant new compliance and due diligence obligations, creates new crimes and penalties and expands the extra-territorial jurisdiction of the U.S. Failure of a financial institution to comply with the Act's requirements could have serious legal and reputational consequences for the institution.

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 U.S. bank and its affiliates be on terms as favourable to the bank as transactions with non-affiliates.

The Federal Reserve adopted a new set of regulations that became effective on April 1, 2003 and made 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 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 and RBC Dain Rauscher Corp. Both of these broker-dealer subsidiaries are regulated by the U.S. Securities and Exchange Commission (the "SEC"), 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 U.S. Securities Exchange Act of 1934. The Net Capital Rule requires the maintenance of minimum net capital, as defined. Compliance with the Net Capital Rule could limit the 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 — Liberty Life Insurance Company and Liberty Insurance Services Corporation, the bank's U.S. insurance subsidiaries, are subject to regulation by the South Carolina Department of Insurance (the "SC Department") and in the various states and jurisdictions in which they transact business. The SC Department's regulation, supervision and administration of Liberty Life Insurance Company relates, among other things, to the standards of solvency that it must maintain, the licensing of it and its agents, the lines of insurance in which it 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 Liberty Life Insurance Company and Liberty Insurance Services Corporation and requires both entities to file annual and other reports relating to its financial condition and other matters. On May 1, 2003, Liberty Life Insurance Company acquired the stock of Business Men's Assurance Company of America ("BMA"), an insurance company subject to the regulation of the Missouri Department of Insurance and in the various states and jurisdictions in which it transacts business. BMA sells variable insurance products that are also subject to regulation by the SEC. Liberty Life Insurance Company intends to redomesticate BMA from Missouri to South Carolina as soon as feasible.

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

Liberty Life Insurance Company and BMA are each subject to state statutory and regulatory restrictions that limit the amount of dividends or distributions by an insurance company to its stockholders.

Liberty Life Insurance Company followed an industry practice years ago that charged African-Americans premiums which reflected differences in life expectancy by race. This underwriting practice, regulated by state insurance departments, was discontinued for new Liberty Life policies in the 1960s. Following an examination of Liberty Life Insurance Company's industrial life block of business which began in 2000, the SC Department issued an order (the "Order") seeking a $2 million fine and a one-year suspension of its license to conduct insurance business in South Carolina. Liberty Life Insurance Company contested the Order in an administrative proceeding.

In December 2002, the SC Department and Liberty Life Insurance Company reached an agreement in principle to resolve the contested case proceeding and to provide for the regulatory settlement of this issue in other affected states. The regulatory settlement agreement was formally consummated in January 2003 and approved by the South Carolina Administrative Law Judge Division in March 2003. The regulatory settlement has been adopted by the large majority of affected states. There exist outstanding issues with the settlement that remain to be resolved with the states of Louisiana and Texas. Liberty Life Insurance Company anticipates those issues will be resolved to the satisfaction of each party. After the settlement was reached, the states of Kentucky and Ohio began an independent examination with respect to a block of policies that were originally issued by Kentucky Central Life Insurance Company and that were reinsured by Liberty Life

Insurance Company in 1994. Liberty Life Insurance Company is cooperating in the examination. It has also stated its willingness to include these policies in the regulatory settlement that was approved in March 2003.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION (1)

(In $ millions, except per share and percentage amounts)	2003	2002	2001
Earnings ***(For the year ended October 31)***			
Net interest income	$ 6,642	$ 6,935	$ 6,311
Non-interest income	10,776	10,320	9,765
Total revenues	17,418	17,255	16,076
Provision for credit losses	721	1,065	1,119
Insurance policyholder benefits, claims and acquisition expense	1,696	1,535	1,344
Non-interest expense	10,409	10,420	9,755
Net income	3,005	2,762	2,411
Preferred share dividends	68	98	135
Net income available to common shareholders	2,937	2,664	2,276
Return on common equity (2)	16.7%	15.8%	16.4%
Balance sheet & off-balance sheet data ***(As at October 31)***			
Loans	170,394	$ 169,258	$ 169,110
Assets	403,033	376,956	359,260
Deposits	259,145	243,486	233,447
Subordinated debentures	6,243	6,614	6,513
Preferred shares	832	1,545	2,024
Common equity	17,543	17,238	16,141
Assets under administration	1,483,900	1,365,900	1,342,500
Assets under management	88,900	90,800	100,000
Capital ratios ***(As at October 31)*** (3)			
Common equity to risk-adjusted assets	10.5%	10.4%	9.4%
Tier 1 capital ratio	9.7%	9.3%	8.7%
Total capital ratio	12.8%	12.7%	11.8%
Common share information ***(For the year ended October 31)***			
Shares outstanding *(thousands)*			
— end of year	656,021	665,257	674,021
— average basic	662,080	672,571	641,516
— average diluted	669,016	678,120	647,216
Earnings per share			
— basic	$ 4.44	$ 3.96	$ 3.55
— diluted	4.39	3.93	3.52
Share price			
— High	65.00	58.89	$ 53.25
— Low	53.26	45.05	41.60
— Close — October 31	63.48	54.41	46.80
Dividends per share (4)	1.72	1.52	1.38
Book value per share — October 31	26.74	25.91	23.95
Market capitalization *($ billions)*	41.6	36.2	31.5
Number of: *(As at October 31)*			
Employees (full-time equivalent)	60,812	59,549	57,568
Automated banking machines	4,401	4,486	4,548
Service delivery units			
Canada	1,297	1,311	1,317
International (5)	788	807	724

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

(2) ROE is defined as net income available to common shareholders divided by average common equity for the period.

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

(4) The bank's medium term goals (three to five years) include a dividend payout ratio of 35% to 45%.

(5) 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 TSX in Canada, and the NYSE in the U.S.A. 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 16, 2003 **:**

Name, and Year Elected	Municipality of Residence	Occupation
W. Geoffrey Beattie (2),(4) (2001)	Toronto	President, The Woodbridge Company Limited Deputy Chairman, The Thomson Corporation
George A. Cohon (3),(4) (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) (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
Jacques Lamarre (2) (2003)	Outremont	President and Chief Executive Officer, SNC-Lavalin Group Inc.
Brandt C. Louie (2),(3) (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) (1984)	Calgary	Chairman of the Board, NOVA Chemicals Corporation Chairman 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 (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
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

Directors are elected annually and hold office until the next annual meeting of shareholders.

Since November 1, 1998, the directors have held the principal occupations described above, except 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. 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., and prior to December 1999 was Head, Corporate and 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. 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 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. David P. O'Brien, Mr. Pedro J. Reinhard 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 16, 2003:

Name	Title	Municipality of Residence
Peter Armenio	President, RBC Investments	Toronto, ON, Canada
Elisabetta Bigsby	Senior Executive Vice-President Human Resources & Public Affairs	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, & Chief Information Officer	Mississauga, ON, Canada
Gordon M. Nixon	President & Chief Executive Officer	Toronto, ON, Canada
James T. Rager	Vice-Chairman, RBC Banking	Oakville, ON, Canada
W. James Westlake	President, RBC Insurance	Oakville, ON, Canada
Charles M. Winograd	Vice-Chairman, RBC Capital Markets	Toronto, ON, Canada

Since November 1, 1997, the executive officers have been engaged in various capacities in the affairs of the Bank, and its affiliates.

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	713
Royal Trust Corporation of Canada	Toronto, Ontario, Canada	692
The Royal Trust Company	Montreal, Quebec, Canada	541
Royal Mutual Funds Inc.	Toronto, Ontario, Canada	4
RBC Capital Trust	Toronto, Ontario, Canada	697
RBC Capital Trust II	Toronto, Ontario, Canada	2
RBC Action Direct Inc.	Richmond Hill, Ontario, Canada	171
RBC Technology Ventures Inc.	Toronto, Ontario, Canada	23
RBC Capital Partners Limited	Toronto, Ontario, Canada	24
RBC Dominion Securities Limited (4)	Toronto, Ontario, Canada	968
RBC Dominion Securities Inc.	Toronto, Ontario, Canada	
RBC Alternative Assets, Inc. (2)(6)	New York, New York, U.S.A.	
Royal Bank Holding Inc.	Toronto, Ontario, Canada	14,339
4111494 Canada Inc.	Vancouver, British Columbia, Canada	
4145348 Canada Corp.	Vancouver, British Columbia, Canada	
4145356 Canada Ltd.	Vancouver, British Columbia, Canada	
6024530 Canada Inc.	Vancouver, British Columbia, Canada	
Connor Clark Ltd.	Toronto, Ontario, Canada	
RBC Insurance Holdings Inc.	Mississauga, Ontario, Canada	
RBC General Insurance Company	Mississauga, Ontario, Canada	
RBC Life Insurance Company	Mississauga, Ontario, Canada	
RBC Travel Insurance Company	Mississauga, Ontario, Canada	
RBC Asset Management Inc.	Toronto, Ontario, Canada	
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	
Royal Bank of Canada Trust Company (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 Capital Markets Arbitrage, SA	Luxembourg	
RBC Capital Markets Arbitrage, LLC	Wilmington, Delaware, U.S.A.	
RBC Holdings (USA) Inc. (2)	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.	
Business Men's Assurance Company of America	Kansas City, Missouri, U.S.A.	
RBC Holdings (Delaware) Inc. (5)	New York, New York, U.S.A.	
Prism Financial Corporation (2)(5)	Chicago, Illinois, U.S.A.	
Royal Bank of Canada (Asia) Limited	Singapore, Singapore	
RBC Alternative Assets, L.P. (2)(6)	New York, New York, U.S.A.	12
RBC Centura Banks, Inc. (5)	Rocky Mount, North Carolina, U.S.A.	3,701
RBC Centura Bank	Rocky Mount, North Carolina, U.S.A.	
CBRM, Inc.	Wilmington, Delaware, U.S.A.	
Church Street Management, Inc.	Richmond, Virginia, U.S.A.	
RBC Mortgage Company	Chicago, Illinois, U.S.A.	
TFB Management, Inc.	Wilmington, Delaware, U.S.A.	
RBC Capital Investment Holdings (USA) Inc.	Wilmington, Delaware, U.S.A.	65
RBCF Limited Partnership	Wilmington, Delaware, U.S.A.	255

Royal Bank of Canada Financial Corporation	St. Michael, Barbados	3
Atlantis Holdings Limited	St. Michael, Barbados	419
RBC Finance B.V.	Amsterdam, Netherlands	2,288
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	
Royal Bank of Canada Trust Company (International) Limited	Jersey, Channel Islands	
Royal Bank of Canada (Suisse)	Geneva, Switzerland	
RBC Investment Management (Asia) Limited	Hong Kong, China	4
RBC Global Services Australia Pty Limited	Sydney, New South Wales, Australia	46

(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.A. and RBCF Limited Partnership which is formed under the laws of the state of Nevada, U.S.A.

(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 2.66% and Prism Financial Corporation owns 7.32% of RBC Centura Banks, Inc.

(6) RBC Alternative Assets, Inc. owns 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, 2003.

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, 2003 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, 2003, 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.

TRADEMARKS

Trademarks used in this report include the LION & GLOBE Symbol, ROYAL BANK OF CANADA, ROYAL BANK, 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 ROYAL BANK OF CANADA, RBC ACTION DIRECT, RBC ADVISOR FUNDS, RBC ASSET MANAGEMENT, RBC CAPITAL TRUST, RBC CAPITAL TRUST II, RBC FUNDS, RBC GLOBAL ASSET MANAGEMENT, RBC INVESTMENTS FINANCIAL PLANNING, RBC PRIVATE BANKING, RBC PRIVATE COUNSEL, ROYAL BANK OF CANADA GLOBAL PRIVATE BANKING, ROYAL MUTUAL FUNDS, and FX DIRECT which are trade-marks of Royal Bank of Canada used by Royal Bank of Canada and/or its subsidiaries. All other trade-marks mentioned in this report are the property of their respective holders.

U.S. GAAP

FINANCIAL REVIEW

Caution regarding forward-looking statements

From time to time, we make written and oral forward-looking statements within the meaning of certain securities laws, 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. These forward-looking statements include, among others, statements with respect to our objectives for 2004, 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; the effects of competition in the markets in which we operate; inflation; judicial decisions; 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; judicial or regulatory proceedings; 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 us or on our behalf.

Management's discussion and analysis

This portion of the Annual Report provides a discussion and analysis of our financial condition and results of operations so as to enable a reader to assess material changes in financial condition and results of operations for the 12 months ended October 31, 2003, compared to those of the 12 months ended October 31, 2002. The consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) are on pages 67 to 98.

In the fourth quarter of 2003, we changed the presentation of revenues and expenses of RBC Insurance and Royal Bank of Canada, without any effect on net income, to provide additional disclosures, which, we believe, make our disclosure more consistent with disclosure practices in the insurance industry. All comparative information has been appropriately reclassified. Total insurance revenues are now reported in non-interest income as insurance premiums, investment and fee income. Previously they had been reported in net interest income and in several lines of non-interest income, the largest of which was insurance revenues. The costs associated with generating these revenues are now captured in insurance policyholder benefits, claims and acquisition expense, whereas previously they were netted against the insurance revenues line in non-interest income. The administrative costs of RBC Insurance continue to be reported in non-interest expense. The table on page 30 provides a further breakout of these lines, and the accounting policies related to our insurance operations are contained in Note 1 to the consolidated financial statements on page 75.

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 and diluted earnings per share (EPS)**

(C$ millions, except per share and percentage amounts)	% change	2003	2002
Net income	5%	**$ 3,036**	$ 2,898
EPS	8%	**$ 4.43**	$ 4.12

As shown in the table above, net income in 2003 increased $138 million or 5% over 2002 despite a $60 million decline in net income due to the strengthening of the Canadian dollar relative to the U.S. dollar, which resulted in a lower translated value of U.S. dollar-denominated earnings. The Canadian dollar appreciated 9% relative to the U.S. dollar, averaging US$.697 in 2003 compared to US$.637 in 2002. The movement of the Canadian dollar compared to currencies other than the U.S. dollar had a minimal impact on the change in our earnings compared to a year ago.

The higher net income in 2003 predominantly reflected a reduction in the provision for credit losses of approximately $225 million after-tax, which more than offset the lower translated value of U.S. dollar-denominated earnings as a result of the stronger Canadian dollar.

Diluted earnings per share were $4.43, up $.31 or 8% from a year ago, with approximately $.04 of the increase due to a reduction in the number of common shares outstanding, primarily as a result of the repurchase of common shares, which is discussed on page 59. The stronger Canadian dollar reduced diluted earnings per share by $.09 in 2003.

As shown in Table 2 below, our 2003 revenues continue to be diversified, with revenues from outside Canada totalling $6.6 billion or 39% of revenues, including U.S. revenues of $4.6 billion or 27% of total revenues.

Canadian net income declined by $58 million or 3%, reflecting lower earnings from the domestic capital markets operations. U.S. net income increased by $172 million or 82%, largely due to stronger performance from RBC Dain Rauscher's full-service brokerage and fixed income businesses and a $45 million after-tax decline in retention compensation costs, as well as a significantly lower provision for credit losses related to our business and government loan portfolio. Other international net income was up $24 million or 4% from 2002, reflecting higher earnings from the international reinsurance business.

TABLE 2 **Earnings by geographic segment**

	2003				2002			
(C$ millions)	Canada	United States	Other International	Total	Canada	United States	Other International	Total
Net interest income	**$ 5,190**	**$1,187**	**$ 271**	**$ 6,648**	$ 5,466	$1,106	$ 356	$ 6,928
Non-interest income	**5,108**	**3,428**	**1,763**	**10,299**	4,746	3,696	1,690	10,132
Total revenues	**10,298**	**4,615**	**2,034**	**16,947**	10,212	4,802	2,046	17,060
Provision for credit losses	**521**	**106**	**88**	**715**	529	440	96	1,065
Insurance policyholder benefits, claims and acquisition expense	**552**	**414**	**438**	**1,404**	368	431	531	1,330
Non-interest expense	**5,824**	**3,504**	**908**	**10,236**	5,747	3,670	827	10,244
Income taxes (1)	**1,309**	**209**	**38**	**1,556**	1,418	51	54	1,523
Net income	**$ 2,092**	**$ 382**	**$ 562**	**$ 3,036**	$ 2,150	$ 210	$ 538	$ 2,898

(1) Includes non-controlling interest in net income of subsidiaries.

Outlook

We are targeting growth in diluted earnings per share of 10—15% and a return on common equity of 17—19% in fiscal 2004 based on the expectations that our cost management and revenue enhancement efforts will allow expenses to grow at a lower rate than revenues and that business and capital market conditions will continue to improve in 2004.

Financial priorities

Revenue growth and diversification

In 2003, total revenues were down $113 million or 1%. The significant appreciation of the Canadian dollar relative to the U.S. dollar resulted in a $495 million decline in the translated value of U.S. dollar-denominated revenues, which more than offset the benefits of higher trading revenues in 2003. A detailed discussion follows on pages 38 to 41.

Cost control

Non-interest expense was $8 million lower in 2003. While the stronger Canadian dollar relative to the U.S. dollar reduced the translated value of non-interest expense by $340 million, there were increases in pension and other postretirement benefit costs, costs related to further automating our retail banking technology infrastructure and expanding our retail sales force,and costs related to companies we acquired during the year. A full discussion is provided on pages 42 to 44.

Strong credit quality

Provisions for credit losses declined by $350 million or 33% and non-accrual loans by $543 million or 24% this year due to a significant improvement in the quality of our corporate loan portfolio. Detailed discussion and tables can be found on pages 45 to 52.

Balance sheet and capital management

Total assets were $412.6 billion at October 31, 2003, up $30.6 billion or 8% from October 31, 2002. At October 31, 2003, using Superintendent of Financial Institutions Canada (OSFI) guidelines and Canadian GAAP financial information, our Tier 1 capital ratio was 9.7% versus 9.3% at October 31, 2002, while the Total capital ratio was 12.8% versus 12.7%. Both ratios were above our medium-term (three- to five-year) capital goals of 8—8.5% 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's 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 downturn in the equity markets could cause a 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.

Bond and money market expectations about inflation and central bank monetary policy decisions have an impact on the level of interest rates, which can have an impact on earnings. Our policy for the non-trading balance sheet is to manage the interest rate risk to a target level. We have defined this target level as a risk neutral balance sheet where the interest rate exposures of most assets and liabilities are matched, with the residual assets representing a notional investment of equity spread evenly across a term of 60 months. As a result, our interest rate risk profile has slightly faster repricing of assets than liabilities. Consequently, a decline in interest rates would tend to reduce the net interest income earned on our non-trading portfolio as shorter-term assets reprice and to increase the value of our longer-term assets. Conversely, an increase in interest rates would result in an increase in the net interest income and a decrease in the value of our longer-term assets. 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 our trading business, 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 and attributes of products or services, and actions taken by competitors. 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 what we believe to be reasonable measures designed 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 judgment or decision that results in fines, damages and other costs that would have a negative impact on our earnings.

Failure to obtain accurate and complete information from or on behalf of customers and counterparties could adversely impact our results.

When deciding to extend credit or enter into other transactions with customers and counterparties, we may rely on information provided to us by or on behalf of customers and counterparties, including audited financial statements and other financial information. We also may rely on representations of customers and counterparties as to the completeness and accuracy of that information. Our financial condition could be adversely impacted if the financial statements on which we rely do not comply with generally accepted accounting principles (GAAP) or are materially misleading, and if customers or counterparties default on amounts owing to us.

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 adding to these original building blocks through additional strategic acquisitions, branch openings, greater market penetration, new product and service offerings, heightened marketing and sales initiatives, and more client referrals between the companies operating in our different business lines. It 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. While results to date have generally met 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, and there can be no assurance that we will always succeed in doing so.

The accounting policies and methods we utilize determine how we report our financial condition and results of operations, and they may require management to make estimates or rely on assumptions about matters that are inherently uncertain.

Our financial condition and results of operations are reported using accounting policies and methods prescribed by GAAP. In certain cases, GAAP allows accounting policies and methods to be selected from two or more alternatives, any of which might be reasonable, yet result in our reporting materially different amounts.

Management exercises judgment in selecting and applying our accounting policies and methods to ensure that, while GAAP compliant, they reflect our best judgment of the most appropriate manner in which to record and report our financial condition and results of operations. Significant accounting policies to the consolidated financial statements are described on pages 72 to 76.

As detailed on pages 25 to 26, two accounting policies have been identified as being "critical" to the presentation of our financial condition and results of operations as they (1) require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and (2) carry the likelihood that materially different amounts could be reported under different conditions or using different assumptions and estimates. These critical accounting policies relate to adequacy of our allowance for credit losses and the determination of the fair value of certain of our financial instruments.

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 changes in consumer spending and saving habits, and our anticipation of and success in managing the associated risks.

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 affect 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 us, or on our behalf.

Critical accounting policies

Application of critical accounting policies

Our significant accounting policies are contained in Note 1 to the consolidated financial statements on pages 72 to 76. Certain of these policies are recognized as critical accounting policies because they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. Our critical accounting policies relate to the allowance for credit losses and the fair value of certain financial instruments. They have been reviewed and approved by our Audit Committee, in consultation with management, as part of their review and approval of our significant accounting policies.

Allowance for credit losses

The allowance for credit losses of $2,164 million reflects management's estimate of probable losses in our loan and off-balance sheet portfolios at October 31, 2003. This comprises an allocated allowance of $1,926 million and an unallocated allowance of $238 million as outlined in Table 15 on page 50. Provisions for credit losses, which are charged to the income statement, increase the allowance, while charge-offs net of any recoveries reduce the allowance. We determine and maintain the allowance based on a comprehensive and systematic review of our lending and off-balance sheet portfolios. As outlined in Note 1 on page 73, the allowance is determined based on management's identification and evaluation of problem accounts and estimation of probable losses that may exist in the remaining portfolio.

Allocated specific allowance — This is maintained to absorb losses relating to both specifically identified borrowers and pools of homogeneous loans that include loans that have been recognized as nonaccrual. The losses relating to identified large business and government debtors are estimated on an account-by-account basis based on the present value of expected cash flows. Management's judgment is required when forecasting the amount and timing of future cash flows, determining the fair value of any underlying security, estimating the costs of realization, assessing observable market prices, and determining expectations about future prospects of the borrower and any guarantors on loans specifically identified as nonaccrual. The losses relating to other portfolio-type products, excluding credit cards, which are directly charged off after 180 days in arrears, are estimated based on the historical net charge-off experience. This amount represents the average percentage lost on nonaccrual balances and is based on past history and management's judgment.

Allocated general allowance — The allocated general allowance, which is reviewed on a quarterly basis, represents our best estimate of probable loan losses that have been incurred within the portfolio on loans not yet specifically identified as nonaccrual. The size of this allowance is dependent largely on the quality of the portfolio and economic conditions.

The methodology we employ to determine the allocated general allowance for business and government loans is supported by several parameters, such as the expected default frequencies associated with each borrower's risk rating, loss in the event of default and exposure at default. These parameters, which allow us to generate a range of probable credit losses within the portfolio, are based on historical experience and are supported by external data. Management judgment and other supporting factors are then applied to determine the allocated general allowance within the range of probable credit losses. An adverse change in any of the above parameters would affect the range of probable credit losses derived and may have a similarly adverse impact on our allocated general allowance, while a favourable change may have a similarly corresponding impact. For more homogeneous loans, probable losses are estimated based upon historical migration and charge-off rates we have experienced on each portfolio. Management uses this information in conjunction with its assessment of portfolio credit quality and economic and business conditions to determine the level of the allocated general allowance.

Unallocated allowance — The unallocated allowance, also reviewed on a quarterly basis, reflects the subjective and judgmental elements involved in our determination of credit risk and the resulting loss estimates, and is an estimate of probable credit losses that have not been captured as part of the allocated specific and allocated general allowance. In determining the unallocated allowance, management considers regulatory requirements, recent loan loss experience and trends in credit quality and concentration as well as any inherent model imprecision.

Fair value of financial instruments

In accordance with U.S. GAAP, certain financial instruments are carried on our balance sheet at their fair value. These financial instruments comprise assets held in our trading portfolio, securities that are available for sale, obligations related to securities sold short and derivative financial instruments. At October 31, 2003, approximately $153 billion of our financial assets and $61 billion of our financial liabilities were carried at fair value. Fair value is defined as the amount at which an instrument could be bought or sold in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of the majority of the financial instruments in our portfolios is determined based on their quoted market price as it provides the best evidence of value, and best reflects the price between two willing parties attempting to transact in an open market. Note 23 on pages 97 to 98 provides disclosure of the estimated fair value of all our financial instruments at October 31, 2003.

If a quoted market price is not available, we use internal or external financial valuation models to estimate the fair value. Where we believe the potential exists that the amount realized on sale will be less than the estimated fair value due to insufficient liquidity over a short period of time, a provision is made. 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. These provisions reflect varying levels of management judgment based on quantitative research and analysis, and industry practice.

The majority of our trading and available for sale portfolios, and obligations related to securities sold short comprise or relate to actively traded debt and equity securities which are carried at fair value based on available quoted market prices. Where quoted market prices are not available for a particular security, the quoted market price of a security with similar characteristics and risk profile is used to estimate the fair value of the unquoted security.

For derivative financial instruments, we determine fair value using various methodologies, including quoted market prices, prevailing market values for similar instruments, net present value of future cash flows and other internal or external pricing models. As few over-the-counter (OTC) derivative financial instruments are actively quoted, we rely primarily on internally developed pricing models and established industry standard pricing models, such as Black-Scholes, to determine fair value. For further information on our derivative instruments, refer to Note 21 on pages 95 to 97.

In determining the assumptions to be used in our pricing models, we look primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates and price and rate volatilities as applicable. However, certain derivative financial instruments are valued using significant unobservable market inputs such as default correlations, among others. These inputs are subject to significantly more quantitative analysis and management judgment.

The following table summarizes our significant financial assets and liabilities by valuation methodology at October 31, 2003:

Assets and liabilities carried at fair value by valuation methodology

	Financial assets			Financial liabilities	
(C$ millions, except percentage amounts)	**Trading securities**	**Available for sale securities**	**Derivatives**	**Obligations related to securities sold short**	**Derivatives**
Fair Value	$81,014	$35,783	$36,473	$22,743	$38,276
Based on					
Quoted market prices	87%	80%	—%	95%	—%
Pricing models with significant observable market parameters	13	20	99	5	100
Pricing models with significant unobservable market parameters	—	—	1	—	—
Total	100%	100%	100%	100%	100%

The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgment by management. The use of different methodologies, models and assumptions may result in significantly different fair values and financial results. To mitigate this risk, all significant financial valuation models are vetted by our risk management function, which is not involved in trading the assets and liabilities and is mandated 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. In addition, OSFI reviews our models selectively based on the risk profile of the business to ensure appropriateness of the models and validity of the assumptions used by management.

As outlined in Note 1 on page 72, changes in the fair value of trading securities and obligations related to securities sold short are recognized as trading revenues in non-interest income.

Changes in the fair value of our derivatives are recognized in non-interest income except in the case of cash flow hedges and hedges of net foreign currency investments in subsidiaries. Refer to Note 1 on pages 73 and 74 for further details.

Changes in the value of available for sale securities are recognized in other comprehensive income, which is a component of shareholders' equity. Writedowns to reflect other than temporary impairment are assessed regularly and recognized in non-interest income.

Line of business results

Overview

Table 3 below shows our results by business segment in 2003. GAAP does not prescribe a method for allocating equity to business segments. For management and reporting purposes, we attribute common equity to our business segments (including the Other segment) based on methodologies designed to measure the equity capital necessary to underpin the risks of the businesses in each segment, as discussed in the Economic Capital section on page 54. The difference between our total common equity and the common equity attributed to our business segments is allocated to the Other segment. The capital attribution methodologies involve judgment by management, are revised from time to time with changes applied prospectively and affect measures such as business segment return on equity (ROE).

Furthermore, the attribution of common equity is a dynamic process and is affected by current business activity, volumes and environmental factors. Average common equity attributed to our business segments, except RBC Insurance and RBC Global Services, is lower than a year ago partially as a result of the decline in the value of U.S. dollar-denominated assets due to the appreciation of the Canadian dollar relative to the U.S. dollar. The decreases in RBC Banking and RBC Capital Markets are also the result of lower credit risk. Average common equity attributed to RBC Insurance is higher largely due to the acquisition of Business Men's Assurance Company of America (BMA) on May 1, 2003.

In addition, effective the first quarter of this year, we reduced the equity capital attributed to goodwill and intangibles risk, consistent with our capital attribution for other risk categories and to reflect the benefits of having diversified businesses and risks. This resulted in reductions in average common equity attributed to the RBC Banking, RBC Investments and RBC Capital Markets segments.

We generated 51% of our net income from RBC Banking, which had an ROE of 20.8%. Net income increased $8 million from 2002, as discussed on page 28. Net income from U.S. operations was $141 million, $65 million lower than in 2002. This decrease largely reflected the effect of the lower translated value of U.S. dollar-denominated earnings due to the strengthening of the Canadian dollar relative to the U.S. dollar, as well as to higher costs associated with both RBC Mortgage (a subsidiary of RBC Centura), and with acquisitions completed during the year.

Net income from RBC Insurance was 8% of total net income, and ROE was 26.4%. Net income was $38 million or 20% higher than in 2002, as discussed on page 30. Total U.S. net income was $27 million, down $8 million from 2002 due largely to integration costs associated with the acquisition of BMA during the year.

RBC Investments generated 14% of our net income, and had an ROE of 15.1%. Net income rose $66 million or 19% from last year, as discussed on page 32. Net income from the U.S. increased to $88 million from a loss of $1 million in 2002, primarily as a result of improved earnings from RBC Dain Rauscher's full-service brokerage and fixed income businesses, and a $25 million after-tax reduction in retention compensation costs.

Net income from RBC Capital Markets was 16% of total net income, and its ROE was 12.6%. Net income increased $52 million or 12% compared to the previous year, as discussed on page 34. U.S. net income was $122 million, up from a loss of $36 million in 2002, as there was a significant decline in the provision for credit losses related to the U.S. corporate loan portfolio.

RBC Global Services contributed 6% of our net income and recorded an ROE of 27.7%. This segment's net income improved $5 million or 3% from 2002, as discussed on page 36.

The Other segment, which mainly comprises Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations, generated 5% of our net income in 2003, and produced an ROE of 7.7%. Its 2002 results are shown in Note 3 on page 78. Net income was $173 million, down $31 million from 2002, due largely to refinements in the methodology for attributing net interest income to our business segments.

TABLE 3 **Results by business segment**

	2003							2002
(C$ millions, except per share and percentage amounts)	**RBC Banking**	**RBC Insurance**	**RBC Investments**	**RBC Capital Markets**	**RBC Global Services**	**Other (1)**	**Total**	**Total**
Net interest income	**$5,546**	**$ —**	**$ 419**	**$ 410**	**$ 164**	**$ 109**	**$ 6,648**	$ 6,928
Non-interest income	**2,106**	**2,045**	**3,111**	**2,215**	**680**	**142**	**10,299**	10,132
Total revenues	**7,652**	**2,045**	**3,530**	**2,625**	**844**	**251**	**16,947**	17,060
Provision for credit losses	**554**	**—**	**(2)**	**189**	**2**	**(28)**	**715**	1,065
Insurance policyholder benefits, claims and acquisition expense	**—**	**1,404**	**—**	**—**	**—**	**—**	**1,404**	1,330
Non-interest expense	**4,642**	**424**	**2,911**	**1,671**	**595**	**(7)**	**10,236**	10,244
Income taxes	**894**	**(11)**	**209**	**271**	**69**	**11**	**1,443**	1,415
Non-controlling interest	**8**	**—**	**—**	**3**	**—**	**102**	**113**	108
Net income	**$1,554**	**$ 228**	**$ 412**	**$ 491**	**$ 178**	**$ 173**	**$ 3,036**	$ 2,898
U.S. net income	**141**	**27**	**88**	**122**	**7**	**(3)**	**382**	210
Net income As a % of total	**51%**	**8%**	**14%**	**16%**	**6%**	**5%**	**100%**	100%

% growth over prior year	**1%**	**20%**	**19%**	**12%**	**3%**	**(15)%**	**5%**	19%
Return on common equity	**20.8%**	**26.4%**	**15.1%**	**12.6%**	**27.7%**	**7.7%**	**17.0%**	16.6%
Average common equity (2)	**$7,350**	**$ 850**	**$ 2,650**	**$ 3,800**	**$ 650**	**$2,200**	**$17,500**	$16,900
Diluted EPS							**$ 4.43**	$ 4.12

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

(2) Calculated using methods intended to approximate the average of the daily balances for the period. Attributed to the segments as discussed above.

RBC Banking

Business profile

RBC Banking serves 11.5 million individual, small and medium-sized business, and mid-market commercial clients in Canada, the U.S., the Caribbean and the Bahamas. Our multiple 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. Drawing on our extensive distribution network and working together with other RBC businesses, we offer our clients tailored solutions and financial planning and advice based on life events through a diverse range of financial products and services including deposit accounts, investments and mutual funds, 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 increasingly operate in select businesses such as credit cards. The U.S. market is more fragmented, and many regional markets are highly competitive. Many banks have expanded their focus to offer investment products and financial advice and planning to targeted clients. Critical success factors, in our opinion, include providing a superior client experience, strong revenue focused sales processes, and maintaining rigorous credit and operational risk management practices and expense control.

Our strengths

- Established Canadian retail banking brand
- Strong capabilities in Customer Relationship Management (CRM) and client segmentation and sub-segmentation, and specialized sales forces
- Comprehensive product, sales, service and national distribution capabilities compared to niche players
- Highest client household penetration ratio in personal segments, and lead market share in business deposits and financing among Canadian banks
- Growing U.S. presence in retail banking in the fast-growing Southeast, and in mortgage origination and builder finance nationally

Our strategy

Our strategy is to grow profitable relationships with each one of our business and personal clients in North America by delivering a superior and tailored client experience, reducing costs, and effectively managing risk and capital.

We are focused on achieving the following strategic priorities:

Superior client experience

- Deliver a superior and tailored client experience to each one of our business and personal clients, with extraordinary focus placed on our high value clients

Strong fundamentals

- Ensure strong revenue growth in Canada, deepening client relationships and our "share of wallet," drawing on our financial planning and advice capabilities, and delivering tailored value propositions to targeted segments
- Reinforce our risk mitigation and cost management focus, rigorously managing credit, operational, and compliance risk, and building low-cost delivery capabilities that significantly reduce the risk of errors

North American expansion

- Accelerate U.S. revenue and earnings growth, significantly growing our business with current and prospective clients of RBC Centura and its RBC Mortgage subsidiary and RBC Builder Finance division, while selectively expanding our network in the Southeast and in targeted national markets

Cross-enterprise leverage

- Create a seamless cross-enterprise and north-south experience for our clients, making it easy to do business across RBC Financial Group

Outlook for 2004

Our business is influenced by the interest rate environment, consumer and business loan demand and credit quality trends. Based on our forecast of slightly higher interest rates in Canada in 2004, we anticipate that deposit spread compression could ease. This, combined with reasonable economic and accompanying loan growth, should have positive revenue growth implications in our Canadian business. In the U.S., we anticipate that branch openings, combined with recent acquisitions in Florida and in our mortgage operations, will have a positive revenue impact. We also expect that cost synergies from the acquisitions and other cost management initiatives will contribute to U.S. net income growth.

Financial performance

Net income was up $8 million or 1% from 2002, as higher earnings in Canada more than offset a $65 million decline in U.S. earnings due to the strengthening of the Canadian dollar relative to the U.S. dollar (which accounted for $18 million of the earnings decline) and higher costs associated with RBC Mortgage operations and with acquisitions completed during the year.

Total revenues were up $5 million in 2003 despite a stronger Canadian dollar, which reduced the translated value of U.S. dollar-denominated revenues by $121 million. This reflected strong loan and deposit volume growth in Canada, which more than offset deposit spread compression, as well as the contribution of U.S. acquisitions completed in 2003 and higher revenues at RBC Mortgage.

Non-interest expense increased $122 million or 3%. Higher non-interest expense in Canada reflected higher pension and postretirement benefit costs, investments made to enhance automated service delivery capabilities and the hiring of additional salespeople in the branch network. In the U.S., expense growth reflected the acquisitions of Admiralty Bancorp, Inc. in January 2003, the mortgage unit of Bank One in August 2003 and Sterling Capital Mortgage Company in October 2003, as well as higher staffing and operational costs at RBC Mortgage due to increased origination and refinancing activity earlier in the year. The efficiency ratio increased 160 basis points as non-interest expense grew at a rate higher than revenues.

The provision for credit losses decreased by $72 million or 12% with significant improvement in the quality of the business loan portfolio, as well as lower provisions taken in the personal loan portfolio.

ROE rose to 20.8% in 2003, largely as a result of a $500 million decline in average common equity attributed to this segment, as discussed on page 27.

Results

(C$ millions, except percentage amounts)	% change	2003	2002
Net interest income	—%	**$ 5,546**	$ 5,557
Non-interest income	1	**2,106**	2,090
Total revenues	—	**7,652**	7,647
Provision for credit losses Allocated specific	(12)	**554**	626
Total	(12)	**554**	626
Non-interest expense	3	**4,642**	4,520
Net income before income taxes	(2)	**2,456**	2,501
Income taxes	(6)	**894**	947
Non-controlling interest	—	**8**	8
Net income	1%	**$ 1,554**	$ 1,546
U.S. net income	(32)	**$ 141**	$ 206
Net income as a % of total group net income	(200) bp	**51%**	53%
ROE	160 bp	**20.8%**	19.2%
Net interest margin (average assets)	(13) bp	**3.42%**	3.55%
Net interest margin (average earning assets)	(16) bp	**3.60%**	3.76%
Efficiency ratio (1)	160 bp	**60.7%**	59.1%
Average assets (2)	4%	**$162,400**	$156,500
Average loans and acceptances (2)	4	**149,600**	144,400
Average deposits (2)	5	**129,000**	122,900
Average common equity (2), (3)	(6)	**7,350**	7,850
Credit information			
Nonaccrual loans	(13)	**$ 1,007**	$ 1,157
Net charge-offs	(13)	**648**	744
Net charge-offs as a % of average loans and acceptances	(9) bp	**.43%**	.52%
Number of employees (full-time equivalent)	7%	**37,475**	35,014

(1) Efficiency ratio is defined in the Glossary on page 109.

(2) Calculated using methods intended to approximate the average of the daily balances for the period.

(3) Attributed to the segment as discussed on page 27.

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, providing them with 24/7 access. 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, asset-based finance, leasing and automotive finance. We also provide individual and business clients with a full choice of Visa credit card products including our increasingly popular Avion Platinum card, 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 CRM, client segmentation and sub-segmentation, and sales management, which includes specialized Investment Retirement Planner, Financial Planning, Mortgage, Knowledge-Based Industry and Agriculture sales forces, among others. We plan to drive revenue growth by delivering a superior and tailored client experience which includes strong capabilities in financial planning and advice, leveraging the full RBC Financial Group.

We will continue to reinforce our cost management focus by leveraging e-enabled technology and cross-enterprise 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

Total revenues were $59 million or 1% higher than in 2002 as volume growth in personal lending and deposit products, increased loan portfolio spread and higher card fees offset lower net interest margin from deposit spread compression. Card balances increased 11%, reflecting the success of the Avion card campaign, while continued strength in the housing market drove mortgage balances 6% higher. Approximately 40% of the increase in the number of employees represented the expansion of the sales force in the branch network in 2003.

Results (1)

(C$ millions)	% change	2003	2002
Total revenues	1%	**$ 6,165**	$ 6,106
Average residential mortgages	6	**72,600**	68,200
Average personal loans	3	**24,200**	23,600
Average personal deposits	8	**80,100**	74,400
Average business loans and acceptances	(2)	**33,300**	34,100
Average business deposits	—	**30,600**	30,500
Average card balances	11	**6,900**	6,200
Card spending volumes	13	**30,200**	26,700
Number of:			
Employees (full-time equivalent)	4	**30,865**	29,716
Automated banking machines	(2)	**4,062**	4,151
Branches	(1)	**1,104**	1,117
Online clients	10	**2,552,966**	2,311,915

(1) Averages are calculated using methods intended to approximate the average of the daily balances for the period.

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 recently expanded with the acquisition on November 21, 2003, of the 13 Florida branches of Provident Financial Group Inc., bringing RBC Centura's Florida network to 24 branches. RBC Mortgage expanded through the acquisition of Houston-based Sterling Capital Mortgage Company, becoming one of the top 10 mortgage originators in the U.S.

Our U.S. priorities include:

- Expanding our retail banking business base in the Southeast, significantly growing our business with current and prospective clients of RBC Centura, as well as through targeted acquisitions and new branch expansion
- Strengthening our residential mortgage and builder finance national niche lines of business
- Building our private banking capabilities, working closely with RBC Investments

- Rapidly building a scalable platform to support growth
- Realizing north-south synergies and strengthening our client segmentation, sales and marketing capabilities
- Leveraging cross-selling opportunities across RBC Financial Group, including our new “RBC Snowbird Package”

Total revenues were $34 million or 3% lower than last year, due to the strengthening of the Canadian dollar relative to the U.S. dollar (which reduced the translated value of revenues by $107 million). In U.S. dollars, total revenues increased 6% to US$879 million due largely to acquisitions completed during the year and the contribution of RBC Mortgage. The growth in average mortgage balances was due primarily to higher levels of loans held for sale at RBC Mortgage, as well as the impact of the acquisition of Eagle Bancshares, Inc. (in July 2002) and the success of a new adjustable rate mortgage product. Although total mortgage originations were up $8.9 billion or 26% from 2002, origination volumes declined significantly in the fourth quarter of 2003, reflecting lower refinancing activity due to the upward movement in interest rates.

Results (1)

(C$ millions)	% change	2003	2002
Total revenues	(3)%	**$ 1,264**	$ 1,298
Average residential mortgages	45	**4,200**	2,900
Average personal loans	—	**3,300**	3,300
Average personal deposits	(7)	**8,000**	8,600
Average business loans and acceptances	(1)	**8,700**	8,800
Average business deposits	7	**5,800**	5,400
Average card balances	—	**100**	100
Card spending volumes	—	**400**	400
Mortgage originations ($ billions)	26	**42.6**	33.7
Number of:			
Employees (full-time equivalent)	30	**5,444**	4,181
Automated banking machines	1	**279**	275
Branches (2)	(1)	**242**	245
Online clients	17	**104,473**	89,434

(1) Averages are calculated using methods intended to approximate the average of the daily balances for the period.

(2) Excludes RBC Mortgage and RBC Builder Finance sales offices of 274 in 2003 and 252 in 2002.

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 the Eastern Caribbean countries of Antigua, Dominica, Montserrat, St. Kitts, and St. Lucia through a network of branches, business centres and automated banking machines.

Total revenues fell $20 million or 8% from last year, due largely to the strengthening of the Canadian dollar relative to the U.S. dollar and certain Caribbean currencies.

Results

(C$ millions)	% change	2003	2002
Total revenues	(8)%	**$ 223**	$ 243
Number of:			
Employees (full-time equivalent)	4	**1,166**	1,117
Automated banking machines	—	**60**	60
Branches	—	**43**	43

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 comprises more than 100 life insurance companies and more than 200 property and casualty insurers and generates almost $60 billion in premiums annually. The U.S. life insurance industry, in which our U.S. business is focused, is both competitive and fragmented and includes almost 1,200 national and regional companies. The U.S. travel insurance industry, which is a new market for RBC Insurance, is estimated to be worth more than US$500 million in premiums and is served by a small number of companies. The international reinsurance industry continues to be dominated by several global players but also includes a number of niche companies.

Key industry trends that continue to affect the insurance sector include ongoing consolidation and increased government regulation and oversight. In addition, consumer product preferences are shifting to reflect demographic changes and renewed concerns over health and travel safety. Distribution is also evolving, with the Internet becoming a more important sales and support tool.

Our strengths

- An integrated North American insurance operation, focused on leveraging synergies across the organization
- 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 bases
- 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 are seeking to:

- Focus on generating above-average revenue growth in conjunction with strong profitability through significant expansion across all of our businesses by adding distribution channels and entering into new markets
- Further integrate our operational areas on a North American basis to maximize efficiencies and economies of scale and scope, while also further leveraging the strengths of being part of RBC Financial Group
- Adopt a leadership position in seeking change in bank insurance regulation to ensure the greatest opportunities for providing integrated bank insurance products and services to our clients
- Focus on financial management to continue to build our expertise in managing capital, investment and taxes within an international bank insurance context

Outlook for 2004

Performance in our business is influenced by our policyholder claims experience, the general economic and interest rate environment, and by credit risk considerations related to our investment portfolios. Our outlook is for strong revenue growth, driven by demographic trends, reasonable economic growth in Canada and the U.S., and expansion into new products and markets with a particular focus on wealth management and living benefits solutions. We will also focus on opportunities for efficiencies from further integrating our Canadian and U.S. operations and expect that performance from our U.S. life insurance operations will improve as we integrate the acquisition of BMA and realize cost and revenue synergies.

Financial performance

Net income increased $38 million or 20% from 2002 due to strong profitability in the reinsurance business, cost-reduction efforts in all lines of business and improvements in the home and auto insurance business. Earnings from the U.S. were $27 million compared to $35 million a year ago. The decline largely reflected costs for integrating BMA, acquired in May 2003, and a $7 million loss in BMA due to lower interest rates in the U.S.

While RBC Liberty Insurance reported 13 months of activity in 2002 as a result of a change in its reporting period from September 30 to October 31 to be consistent with our fiscal year, the Canadian operations reported 13 months of results in 2003 for the same reason. The extra month of results in 2003 largely offset the extra month of results reported last year.

Insurance premiums, investment and fee income were up $135 million or 7% in 2003. The increase was largely due to higher earned

premiums and investment income from the acquisition of BMA in the middle of 2003 and growth in earned premiums from the home and auto business. In addition, improvements in the equity markets increased both investment income and policyholder benefits associated with customer holdings of Universal Life products by $83 million.

Insurance policyholder benefits, claims and acquisition expense was higher, primarily reflecting volume growth in the home and auto business and the increase in policyholder benefits related to Universal Life products mentioned above, which was partly offset by lower reinsurance claims.

The $25 million or 6% increase in non-interest expense was related to business volume growth as well as costs associated with the acquisition of BMA, which were partially offset by cost savings in other areas.

ROE increased to 26.4% as higher net income more than offset the additional $150 million in average common equity attributed to this segment, as discussed on page 27.

Results

(C$ millions,except percentage amounts)	% change	2003	2002
Non-interest income			
Net earned premiums (1)	1%	**$1,576**	$1,564
Investment income	69	**317**	188
Fee income	(4)	**152**	158
Insurance premiums, investment and fee income	7	**2,045**	1,910
Insurance policyholder benefits, claims and acquisition expense	6	**1,404**	1,330
Non-interest expense	6	**424**	399
Net income before income taxes	20	**217**	181
Income taxes	n.m.	**(11)**	(9)
Net income	20%	**$ 228**	$ 190
U.S. net income	(23)	**$ 27**	$ 35
Net income as a % of total group net income	100 bp	**8%**	7%
ROE	70 bp	**26.4%**	25.7%
Premiums and deposits	9%	**$2,214**	$2,023
Average assets (2)	27	**8,900**	7,000
Average common equity (2), (3)	21	**850**	700
Number of employees (full-time equivalent)	9%	**2,883**	2,641

(1) Net of reinsurance premiums.

(2) Calculated using methods intended to approximate the average of the daily balances for the period.

(3) Attributed to the segment as discussed on page 27.

n.m. not meaningful

Strategy by division

Life

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

In Canada, life and health insurance products are distributed through more than 7,000 independent brokers affiliated with producer groups, financial planning firms and stock brokerage firms, as well as through direct sales and a network of career sales representatives. In the U.S., we provide life and health insurance products through independent broker-dealers and a proprietary sales force. We also offer select products through direct channels.

Over the next year, our focus will be on further integrating our life insurance operations, increasing growth in premiums through enhancing our products and services and further developing our distribution network.

Financial highlights by division

Higher insurance premiums, investment and fee income reflected a substantial increase in investment income associated with Universal Life products and higher earned premiums from the Canadian life business, which more than offset lower earned premiums from the reinsurance business and from RBC Liberty Insurance due to policy surrenders. In 2003, an extra month of revenues of $27 million was reported for the Canadian life operation as it changed its reporting period to be consistent with our fiscal year, and in 2002, an extra month of revenues of $43 million was reported for the U.S. operations for the same reason. The increase in average assets was primarily due to the acquisition of BMA in May 2003.

Results

(C$ millions)	% change	2003	2002
Insurance premiums, investment and fee income	7%	**$1,313**	$1,226
Average assets (1)	29	**7,500**	5,800
Number of:			
Life and health policies in force and certificates in Canada (thousands)	29	**3,850**	2,985
Life policies in force in the U.S. (thousands)	(6)	**2,185**	2,325
Sales agents (U.S. and Canada)	2	**1,268**	1,244

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

Non-life

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

We provide Canadians with a wide range of home and auto insurance products, offering them to individual clients and employee and affinity groups through direct sales. Travel insurance products, which are sold through travel agents and the Internet in Canada and the U.S., as well as through bank channels in Canada, include trip cancellation and interruption 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 expand our home and auto, and travel insurance operations and effectively managing our property reinsurance portfolio.

The home and auto business drove insurance premiums, investment and fee income $62 million higher in 2003 due to increased sales of new policies. The number of home and auto policies in force increased 42% from last year. In addition, the Canadian home and auto, and travel businesses reported an extra month of revenues of $27 million in 2003 as these businesses changed their reporting period to be consistent with our fiscal year.

Results

(C$ millions)	% change	2003	2002
Insurance premiums, investment and fee income	17%	**$ 436**	$ 374
Average assets (1)	43	**1,000**	700
Number of:			
Home and auto — personal lines policies in force (thousands)	42	**132**	93
Travel — coverages (thousands)	2	**2,388**	2,339

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

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, insurance software and outsourcing and administration solutions services.

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. We also oversee the creditor insurance products and services for individual and business clients of RBC Financial Group. This includes life and disability insurance for mortgages, loans and Visa cards.

In the U.S., our fee businesses include outsourcing services and administration and software systems. Our Business Process Outsourcing division provides services such as underwriting, billing and collection, and claims processing, while our 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 build on our existing infrastructure and technology to enhance our product and service offering and grow our fee businesses.

Insurance premiums, investment and fee income fell $14 million in 2003 as a result of lower outsourcing revenues from the U.S. businesses, which was related to the decline in the number of policies under administration. In addition, an extra month of results was reported in 2002, accounting for $7 million of the decrease, to align the reporting period of the U.S. operations with our fiscal year.

Results

(C$ millions)	% change	2003	2002
Insurance premiums, investment and fee income	(5)%	**$ 296**	$ 310
Average assets (1)	(20)	**400**	500
Number of:			
Assistance services — calls (thousands)	(2)	**670**	681
Policies under administration in the U.S. (thousands)	(4)	**3,925**	4,100

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

RBC Investments

Business profile

RBC Investments provides wealth management services including full-service and self-directed brokerage, financial planning, investment counselling, personal trust, private banking and investment management products and services to 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.

Industry profile

Wealth management remains a highly competitive business with numerous large and boutique firms serving the market. Volatile markets and the rising costs of managing the regulatory and compliance requirements of the business continue to encourage consolidation. Consolidation in the mutual fund industry has not significantly altered the competitive landscape as distribution channels continue to be expanded by all players.

Our strengths

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

Our strategy

Our goal is to be our clients' first choice for wealth management. We plan to do so by developing broader and deeper relationships with our clients throughout their lives.

Employee engagement, service excellence and client commitment underlie our pursuit of exceptional business performance and shareholder value creation. In order to broaden and deepen relationships with our clients, we are using segmentation strategies to develop targeted solutions for specific client groups. In addition, we are transforming our distribution models to ensure that our financial consultants and advisors have more time to focus on their clients. We are also focusing on improving our operational infrastructure and processes to efficiently support growth.

Outlook for 2004

Based on our expectation that investor confidence and capital markets performance will continue to improve modestly, we expect moderate revenue growth in 2004. Cost-containment efforts should keep the rate of expense growth below that of revenue growth. Retention compensation costs relating to U.S. acquisitions are forecast to be approximately $20 million lower in 2004 than in 2003, further contributing to net income growth.

Financial performance

Net income increased $66 million or 19% in 2003, driven primarily by improved earnings in the U.S. and ongoing cost-containment initiatives, as well as higher earnings from the Canadian self-directed brokerage and asset management businesses. U.S. net income was up $89 million from a year ago, with significantly improved performance in the full-service brokerage business, strong fixed income results and declining retention compensation costs.

Total revenues fell $117 million or 3%, largely reflecting the strengthening of the Canadian dollar relative to the U.S. dollar, which reduced the translated value of U.S. dollar-denominated revenues by $175 million. This decline more than offset higher revenues from RBC Dain Rauscher's fixed income and full-service brokerage businesses. Total revenues from the wealth management businesses in Canada were negatively affected by weak capital market conditions in the first half of the year.

The $233 million or 7% decline in non-interest expense included a $150 million reduction due to the stronger Canadian dollar, and reflected savings from cost-containment initiatives and a $41 million decline in retention compensation costs at RBC Dain Rauscher.

ROE improved 400 basis points to 15.1%, reflecting higher earnings in 2003, as well as a $350 million reduction in average common equity attributed to this segment, as discussed on page 27.

Results

(C$ millions, except percentage amounts)	% change	2003	2002
Net interest income	13%	**$ 419**	$ 371
Non-interest income	(5)	**3,111**	3,276
Total revenues	(3)	**3,530**	3,647

Provision for credit losses			
Allocated specific	100	**(2)**	(1)
Total	100	**(2)**	(1)
Non-interest expense	(7)	**2,911**	3,144
Net income before income taxes	23	**621**	504
Income taxes	32	**209**	158
Net income	19%	**$ 412**	$ 346
U.S. net income (loss)	n.m.	**$ 88**	$ (1)
Net income as a % of total group net income	200 bp	**14%**	12%
ROE	400 bp	**15.1%**	11.1%
Average common equity (1)	(12)%	**2,650**	3,000
Number of employees (full-time equivalent)	(13)%	**10,464**	12,001

(1) Calculated using methods intended to approximate the average of the daily balances for the period. Attributed to the segment as discussed on page 27.

n.m. not meaningful

Strategy by division

Canada

Wealth Management Canada

This group includes Dominion Securities (full-service brokerage) and Action Direct (self-directed brokerage), which serve both investors requiring advisor-based comprehensive financial solutions and self-managed investors. Services are provided by over 1,320 investment advisors and 115 investment representatives, as well as via telephone and the Internet. Additionally, within this group our Private Counsel, Trust Services and Private Banking businesses serve high net worth clients across Canada, offering a relationship management approach for clients in need of sophisticated financial solutions. In Canada, there are 43 investment counsellors, 67 trust officers and 51 private bankers in locations across the country. RBC Investments Financial Planning is a business operated jointly with RBC Banking. 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. There are 1,030 relationship financial planners and 530 commission-based investment and retirement planners who are also financial planners and licensed mutual funds salespeople. RBC Investments reports financial results from its share of this jointly operated business within Wealth Management Canada. Our goal is to grow our market position in Canada by continuing to build and enhance existing client relationships.

Global Asset Management

This unit includes RBC Asset Management, which became Canada's largest mutual fund company in 2003. We directly manage more than $43 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 encompasses 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. RBC Asset Management has enjoyed strong success in asset retention, resulting from strong relative investment performance, improved client retention by RBC Royal Bank and RBC Investments Financial Planning, and support for RBC Funds in the advisory (broker and independent financial planner) channel, which contributed to a continued gain in market share. Beginning in 2004, Global Asset Management will also include Voyageur Asset Management (in 2003, included within RBC Dain Rauscher), our U.S.-based asset management company,which manages US$21 billion in mutual funds and institutional mandates. In 2004, our goal is to maximize growth opportunities by leveraging RBC partnerships in Canada and the U.S.

United States

RBC Dain Rauscher

Minneapolis-based RBC Dain Rauscher is ranked as the eighth-largest full-service securities firm in the U.S., based on number of financial consultants. We have nearly 1,750 financial consultants serving individual clients from coast to coast and a fixed income business with 327 investment bankers, sales representatives and traders serving institutional and retail clients nationwide. 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 that generate greater market share and scale within our existing markets.

International

Global Private Banking

Operating under the brand name Royal Bank of Canada Global Private Banking, this unit provides private banking, trust and investment counselling, and investment advisory solutions to high net worth clients in more than 100 countries from 23 offices around the world. In 2004, this group will include the International Advisory Group (in 2003, included within Wealth Management Canada) to better align this business directly with its international clients. This team has both Canadian and internationally-based employees. Our goal is to provide specialized global services to high net worth clients with assets of more than $1 million. In 2004, we will continue to grow revenues by exploring acquisition opportunities in the Americas and Europe, by building distribution alliances with financial institutions that are strong in their local market but lack an international wealth management capability, and with an increasingly aggressive outreach sales and marketing program. The addition of non-proprietary money management capabilities will expand our value proposition to clients.

Financial highlights by division

Lower transaction-based and asset value-based fee revenues drove the $67 million or 5% decline in revenues from the wealth management businesses in Canada, reflecting an extremely weak Canadian RRSP season in 2003, which more than offset strong performance from the self-directed brokerage business. Global Private Banking revenues fell $15 million, also due to lower fee-based revenues and reduced net interest income as a result of low interest rates. The decline in revenues from RBC Dain Rauscher is entirely attributable to the strengthening of the Canadian dollar relative to the U.S. dollar, as both its full-service brokerage and fixed income businesses performed well. Global Asset Management revenues remained virtually unchanged.

Total revenues

(C$ millions)	% change	2003	2002
Wealth Management Canada	(5)%	**$1,212**	$1,279
RBC Dain Rauscher	(2)	**1,666**	1,702
Global Private Banking	(4)	**368**	383

Global Asset Management	—	**287**	286
Other	n.m.	**(3)**	(3)
	(3)%	**$3,530**	$3,647

n.m. not meaningful

The AUA of the wealth management businesses in Canada was virtually unchanged despite higher year-end equity values compared to 2002, as $14 billion in custody-related AUA was transferred to RBC Global Services. RBC Dain Rauscher's AUA balance fell 4% in 2003 due to the strengthening of the Canadian dollar relative to the U.S. dollar, which reduced the translated value of U.S. dollar-denominated assets. In U.S. dollars, RBC Dain Rauscher's AUA increased US$11.8 billion. Global Private Banking's personal AUA was also affected by the stronger Canadian dollar which negatively affected the translated value of both Pound-Sterling and U.S. dollar-denominated assets. Institutional AUA grew 11% as additional business was acquired from existing clients.

Assets under administration (AUA)

(C$ millions)	% change	2003	2002
Personal			
Wealth Management Canada	—%	**$142,750**	$142,160
RBC Dain Rauscher	(4)	**128,150**	132,930
Global Private Banking	(15)	**43,750**	51,570
	(4)	**314,650**	326,660
Institutional — Global Private Banking	11	**77,520**	69,730
	(1)%	**$392,170**	$396,390

Personal AUM decreased $4 billion due to the effect of the stronger Canadian dollar on foreign currency-denominated assets in 2003. Much of the 7% increase in institutional AUM was related to the accumulation of new assets despite the foreign exchange impact mentioned above, while the higher mutual fund balances primarily reflected higher asset values at the end of 2003 compared to last year.

Assets under management (AUM)

(C$ millions)	% change	2003	2002
Personal	(12)%	**$31,300**	$35,660
Institutional	7	**19,690**	18,410
Mutual funds	7	**36,730**	34,230
	(1)%	**$87,720**	$88,300

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 New York and London, and offices in 28 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 Index. However, we believe significant opportunities exist for specialized players targeting the lower end of the S&P 500 as well as companies that have the potential to move into this category. 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. We believe that 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 in Canada 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 our targeted 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-sized 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 2004

Our total revenues and earnings are dependent on the performance of both capital and credit markets and the strength of the economic environment, which drive demand for new issue and advisory services, merger and acquisition activities and trading volumes. Although economic and market conditions remain uncertain, our expectation is that capital markets performance will improve modestly in 2004, resulting in moderate revenue growth. We also expect to maintain our discipline with respect to costs and credit risk.

Financial performance

Net income increased $52 million or 12% in 2003, as a significant reduction in the provision for credit losses related to the U.S. corporate loan portfolio more than offset lower revenues and higher non-interest expense.

Total revenues fell $49 million or 2%. A $115 million reduction in the translated value of U.S. dollar-denominated revenues due to the stronger Canadian dollar, and lower net interest income reflecting the intentional reduction in the size of the corporate loan portfolio, more than offset extremely strong performance from the fixed income businesses. The fixed income businesses benefited from highly active debt markets and the favourable interest rate environment in 2003.

Non-interest expense was up $44 million or 3% compared to last year, primarily due to higher variable compensation costs during the second half of the year related to the improvement in capital market activity, and costs associated with new growth initiatives and with restructuring the U.S. investment banking and institutional equities businesses. These increases more than offset the $69 million reduction in the translated value of U.S. dollar-denominated expenses due to the stronger Canadian dollar.

The $276 million decline in the provision for credit losses, the $376 million decline in nonaccrual loans and the $332 million decline in net charge-offs reflected the improvement in the quality of the corporate loan portfolio compared to 2002. Exposures to higher risk sectors, such as

telecommunication and energy, continue to be reduced.

ROE improved to 12.6% in 2003, due to higher net income as well as a $150 million reduction in average common equity attributed to this segment, as discussed on page 27.

Results

(C$ millions, except percentage amounts)	% change	2003	2002
Net interest income	(23)%	**$ 410**	$ 532
Non-interest income	3	**2,215**	2,142
Total revenues	(2)	**2,625**	2,674
Provision for credit losses			
Allocated specific	(59)	**189**	465
Total	(59)	**189**	465
Non-interest expense	3	**1,671**	1,627
Net income before income taxes	31	**765**	582
Income taxes	90	**271**	143
Non-controlling interest	n.m.	**3**	—
Net income	12%	**$ 491**	$ 439
U.S. net income (loss)	n.m.	**$ 122**	$ (36)
Net income as a % of total group net income	100bp	**16%**	15%
ROE	210bp	**12.6%**	10.5%
Average assets (1)	10%	**199,300**	180,700
Average loans and acceptances (1)	(16)	**24,300**	28,800
Average deposits (1)	(1)	**80,100**	81,100
Average common equity (1), (2)	(4)	**3,800**	3,950
Credit information			
Nonaccrual loans	(34)%	**$ 718**	$ 1,094
Net charge-offs	(65)	**178**	510
Net charge-offs as a % of average loans and acceptances	(104)bp	**.73%**	1.77%
Number of employees (full-time equivalent)	(1)%	**2,912**	2,938

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

(2) Attributed to the segment as discussed on page 27.

n.m. not meaningful

Strategy by division

Global Investment Banking

In February 2003, the Capital Markets Services division was split into its two component parts — Global Investment Banking and Global Equity — primarily to address the changes in the regulatory and governance environments that require the separation of research and investment banking activities.

The Global Investment Banking division houses the corporate and investment banking businesses. We offer a full range of credit and corporate finance products, including debt and equity underwriting, mergers and acquisitions advice and execution and financial sponsorship coverage.

In Canada, we intend to continue to be a full-service provider to all industries, building on the breadth and longevity of our client relationships and a long-standing reputation as a top-ranked investment bank. In the U.S., we plan to be industry-focused — specifically on technology, telecommunication, health care, energy, consumer products and mid-sized financial institutions. We expect to differentiate ourselves on our ability to provide superior market-based solutions for our target clients.

Global Equity

Global Equity provides expertise in the research and trading of North American and select international securities.

We intend to leverage our broad knowledge of Canadian markets, the strength of our research capabilities and the breadth and depth of our institutional client relationships to serve our clients better. In the U.S., our goal is to combine our traditional capital markets focus with our research capabilities to build a franchise in select segments of the U.S. middle market — specifically, the technology, health care, energy, communications, consumer products, financial institutions and real estate sectors. We plan to continue to develop our electronic trading capabilities to keep pace with the increasing demand from clients for electronic execution services.

Global Financial Products

This division brings 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 is the centre of expertise for the proprietary trading activities of RBC Capital Markets. 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.

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 prime brokerage, 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, New York and Sydney. 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 plan to continue to invest in innovative electronic delivery channels that offer sophisticated and flexible products and services.

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 Financial Group.

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 manage the size and credit quality of our corporate lending base.

Alternative Investments

Alternative Investments was formed in June 2002 with a mandate to expand our wholesale asset management capabilities, which today include operations in structuring hedge fund transactions and in private debt and 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 and Collateralized Debt Obligations. We are uniquely positioned to leverage our existing infrastructure and our superior product knowledge across other businesses within RBC Financial Group that have strong relationships with our target client base.

Financial highlights by division

Total revenues were negatively affected by the appreciation of the Canadian dollar relative to the U.S. dollar, which reduced the translated value of U.S. dollar-denominated revenues by $115 million. Revenues from Global Financial Products were up $118 million or 13%, as the favourable interest rate environment, higher market volumes and new initiatives helped to fuel revenue growth in many of our fixed income businesses. Notably strong results were experienced in bond businesses in both domestic and international markets, as well as structured products and

securitization. Revenues from our proprietary trading activities in Global Financial Products were lower than last year, largely due to the appreciation of the Canadian dollar relative to the U.S. dollar. Poor capital market conditions during the first half of 2003 dampened revenues from Global Investment Banking and Global Equity. In addition, 2002 revenues from Global Investment Banking included credit derivative gains related to accounts classified as nonaccrual last year. Global Treasury Services revenues were up $11 million on higher contributions from the foreign exchange and money market sales and trading businesses. Revenues from Global Credit were up $8 million despite lower net interest income due to the intentional reduction in the size of the corporate loan book, as last year's results included net losses on credit derivatives. Revenues from Alternative Investments increased $10 million, largely due to strong growth in the hedge fund business. The Alternative Investments business also recorded $39 million of losses on private equity investments related largely to the four years ended October 31, 2003. These losses were recognized as a result of our determination that certain private equity investments should be accounted for using the equity method of accounting rather than the previously applied cost method of accounting.

Total revenues

(C$ millions)	% change	2003	2002
Global Investment Banking	(26)%	**$ 531**	$ 715
Global Equity	(4)	**292**	304
Global Financial Products	13	**1,004**	886
Global Treasury Services	2	**556**	545
Global Credit	6	**141**	133
Alternative Investments	11	**101**	91
	(2)%	**$2,625**	$2,674

The decline in average assets in the Global Investment Banking and Global Credit businesses reflected the continued and intentional reduction in the size of the non-core corporate loan portfolio compared to a year ago. The increase in average assets in Global Financial Products related to the growth in fixed income and global equity derivatives businesses, and in Alternative Investments reflected the growth in the hedge fund business. Global Treasury Services also recorded a growth in average assets, due to positive mark-to-market adjustments relating to foreign exchange derivatives, and increased assets in support of our money market sales and trading and liquidity management activities.

Average assets (1)

(C$ millions)	% change	2003	2002
Global Investment Banking	(51)%	**$ 5,200**	$ 10,600
Global Equity	—	**600**	600
Global Financial Products	29	**93,000**	71,900
Global Treasury Services	7	**85,400**	79,700
Global Credit	(51)	**4,900**	10,100
Alternative Investments	31	**10,200**	7,800
	10%	**$199,300**	$180,700

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

RBC Global Services

Business profile

RBC Global Services offers specialized transaction processing services to business, commercial, corporate and institutional clients in Canada and select international markets, principally the U.K. and Australia. Key businesses include global custody, investment administration, correspondent banking, cash management, payments and trade finance. Our 50% interest in the Moneris Solutions joint venture with Bank of Montreal for merchant card processing is reported in RBC Global Services.

Industry profile

The transaction processing services industry is highly competitive and relatively mature in the Canadian market. Monoline specialists and new market entrants compete against traditional financial institutions. Scale continues to be important to support the significant investment in technology required to introduce new products and services, accommodate industry-driven infrastructure changes and enhance operational efficiencies. The quality of client service and strength of client relationships are also key differentiating factors in these businesses. Market consolidation continued in 2003, particularly in businesses such as global custody and merchant card processing, which require global capability or significant scale.

Our strengths

- We have a leadership position in Canada in these businesses as measured by assets under administration (AUA) and number of client relationships
- We have strong client relationships as demonstrated by our high rate of client retention and new business generated from existing clients
- We are recognized for quality of service as evidenced in third-party client surveys, such as *Global Custodian* magazine's annual Agent Bank review, which has assigned us "Top Rated" status for 15 consecutive years; and our recognition by Stewart Associates as Canada's highest-rated service provider of cash management services for the past five years
- 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 platforms within RBC Financial Group to offer a superior integrated service

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:

- Leverage our Canadian product and service strengths to profitably grow our business in North America and select international markets
- Expand the business through key alliances, acquisitions and partnerships and continue to leverage the Moneris Solutions joint venture
- Enhance our processing and systems platforms to deliver new capabilities, improve efficiencies and achieve economies of scale
- Differentiate our service offering by taking a client-centric approach that incorporates the diversified strengths and products of RBC Financial Group

Outlook for 2004

While our transaction processing revenue is primarily derived from stable, fee-based sources, interest earned on deposits and cash balances, and fees earned on client assets are variable sources of revenue that influence the overall revenue of this segment. Key risks to this income stream come from lower interest rates and poor capital markets performance. We expect interest rates to remain low in historical terms, which will continue to have an unfavourable impact on our revenue growth in 2004. Higher asset values resulting from a modest improvement in capital markets during 2004 should have a favourable impact on fee revenues, which should offset the unfavourable impact of the low interest rate environment.

Financial performance

Net income was up $5 million or 3% from 2002 as higher revenues, a lower provision for credit losses and lower income taxes offset higher non-interest expense.

Total revenues increased $36 million or 4%, reflecting growth in fee income from the cash management and custody businesses. However, lower capital markets transaction volumes and securities values earlier in 2003, as well as the low interest rate environment throughout the year, restrained the pace of revenue growth.

Non-interest expense was $47 million or 9% higher in 2003, due to increased business activity during the year, continued investments in technology and higher pension and severance costs.

The provision for credit losses decreased $8 million, as exposures to higher risk countries were closely monitored.

ROE fell 100 basis points in 2003 to 27.7%, primarily reflecting $50 million in additional average common equity attributed to the segment, as discussed on page 27.

Results

(C$ millions,except percentage amounts)	% change	2003	2002
Net interest income	21%	**$ 164**	$ 136
Non-interest income	1	**680**	672
Total revenues	4	**844**	808
Provision for credit losses			
Allocated specific	(80)	**2**	10
Total	(80)	**2**	10
Non-interest expense	9	**595**	548
Net income before income taxes	(1)	**247**	250
Income taxes	(10)	**69**	77
Net income	3%	**$ 178**	$ 173
U.S. net income	(22)	**$ 7**	$ 9
Net income as a % of total group net income	—	**6%**	6%
ROE	(100)bp	**27.7%**	28.7%
Average common equity (1)	8	**650**	600
Credit information			
Nonaccrual loans	(37)%	**$ 19**	$ 30
Net charge-offs	n.m.	**5**	(1)
Net charge-offs as a % of average loans and acceptances	41bp	**.36%**	(.05)%
Number of employees (full-time equivalent)	(1)%	**2,550**	2,571

(1) Calculated using methods intended to approximate the average of the daily balances for the period. Attributed to the segment as discussed on page 27.

n.m. not meaningful

Strategy by division

Institutional & Investor Services

Institutional & Investor Services is Canada's largest custodian as measured by AUA, and a provider of investment administration services to corporate and institutional investors worldwide. We operate from 12 locations throughout the world, with a global custody network spanning 80 markets.

Our plan is 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

Total revenues increased $16 million or 4%. Higher fee income was partially offset by lower foreign exchange revenue and weaker capital markets earlier in the year. Although the higher AUA balance in 2003 reflects the positive impact of new business, the majority of the increase was due to higher equity values at the end of the year.

Results

(C$ millions)	% change	2003	2002
Total revenues	4%	**$ 417**	$ 401
Assets under administration	16	**1,122,000**	963,200

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 strong client relationships by:

- Creating differentiated value-added solutions that address the unique needs of the various market segments
- Adding new revenue streams by introducing service offerings that integrate our new products with those of other business platforms

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

Total revenues decreased $2 million or 2% primarily due to lower interest rates. Average asset and deposit balances have changed little from last year, although the mix has changed as we continue to manage our exposure to higher risk markets.

Results

(C$ millions)	% change	2003	2002
Total revenues	(2)%	**$ 96**	$ 98
Average assets (1)	(18)	**1,400**	1,700
Average deposits (1)	19	**2,020**	1,700

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

Treasury Management & Trade

Treasury Management & Trade provides cash management, payment and trade services to business and public sector markets in Canada. Our Trade team provides importers and exporters with a variety of trade products, services and counsel. Our cash management group provides a full range of solutions to clients including disbursement, receivable and information products. 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:

- Enhancing our market segmentation approach that accommodates the diverse needs of business and public sector 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

Total revenues increased $22 million or 7% primarily due to growth in non-interest income from cash management products and services. Net interest income also increased as deposit growth more than offset lower interest rates.

Results

(C$ millions, volumes in thousands)	% change	2003	2002
Total revenues	7%	**$ 331**	$ 309
Average deposits (1)	6	**6,740**	6,350
Payment volumes	3	**7,634**	7,440
Payment errors (per 100,000 payments)	(12)	**2.9**	3.3

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

Financial priority: Revenue growth and diversification

Highlights

- Total revenues down 1%
- Net interest income down 4%
- Net interest margin of 1.65%, down 21 basis points
- Non-interest income up 2%
- Non-interest income 61% of total revenues

TABLE 4 **Total revenues**

(C$ millions)	2003	2002	2003 vs 2002 Increase (decrease)	
Net interest income	**$ 6,648**	$ 6,928	**$ (280)**	**(4)%**
Non-interest income	**10,299**	10,132	**167**	**2**
Total revenues	**$16,947**	$17,060	**$ (113)**	**(1)%**

Total revenues were down $113 million or 1% from a year ago, reflecting a $495 million decline in the translated value of U.S. dollar-denominated revenues due to a significant appreciation of the Canadian dollar relative to the U.S. dollar, which more than offset the benefits of higher trading revenues in 2003. Excluding the effect of the appreciation of the Canadian dollar, revenues were up $382 million or 2%.

Outlook

We are targeting revenue growth of 5–8% in fiscal 2004, based on, among other things, our expectations that capital markets activity will continue to improve, interest rates in Canada will rise moderately and the Canadian and U.S. economies will grow somewhat faster than in 2003.

Net interest income

Net interest income was $6.6 billion, down $280 million or 4% from 2002, with $120 million of the decrease attributable to a decline in the translated value of U.S. dollar-denominated net interest income due to the strengthening of the Canadian dollar relative to the U.S. dollar. As shown in Table 6 on page 39, while higher asset volumes (including residential mortgages, personal and credit card loans) added $203 million to net interest income in 2003, changes in the rates received on assets and paid on liabilities reduced net interest income by $483 million, primarily reflecting price competition in retail banking and low interest rates, which led to margin compression.

TABLE 5 **Net interest income and margin**

(C$ millions, except percentage amounts)	2003	2002	2001
Average assets (1)	**$402,000**	$371,800	$331,700
Net interest income	**6,648**	6,928	6,291
Net interest margin (2)	**1.65%**	1.86%	1.90%

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

(2) Net interest income, as a percentage of average assets.

Net interest margin

As shown in Table 5 above, the net interest margin decreased by 21 basis points from a year ago to 1.65%. This reflected significant growth in low-interest-yielding assets such as securities, higher market values of non-interest-yielding assets such as derivative-related amounts (included in other assets) and spread compression resulting from price competition in retail banking and low interest rates.

As shown in Table 7 on page 40, while the average rate paid on total liabilities decreased by 20 basis points, the average rate received on total assets decreased by 39 basis points, leading to a 21 basis point reduction in the net interest margin. The average rate received on securities dropped 42 basis points while volumes of securities were up $10.6 billion on average or 11%. Similarly, other assets, which do not earn interest, were up $10.9 billion on average.

TABLE 6 **Change in net interest income**

(C$ millions)	2003 vs 2002 Increase (decrease) due to changes in average volume (1)	average rate (1)	Net change	2002 vs 2001 Increase (decrease) due to changes in average volume (1)	average rate (1)	Net change
Assets						
Deposits with banks						
Canada	**$ 1**	**$ —**	**$ 1**	$ (3)	$ (9)	$ (12)
United States	**23**	**(65)**	**(42)**	(21)	(171)	(192)
Other International	**29**	**(96)**	**(67)**	(17)	(128)	(145)
Securities						
Trading account	**122**	**(159)**	**(37)**	459	(657)	(198)
Available for sale	**192**	**(267)**	**(75)**	155	(180)	(25)
Assets purchased under reverse repurchase agreements	**115**	**21**	**136**	197	(709)	(512)
Loans						
Canada						
Residential mortgage	**230**	**(237)**	**(7)**	218	(402)	(184)
Personal	**38**	**65**	**103**	(116)	(475)	(591)
Credit card	**100**	**(4)**	**96**	(28)	(9)	(37)
Business and government	**(112)**	**663**	**551**	(147)	157	10
United States	**(88)**	**(315)**	**(403)**	662	(570)	92
Other International	**55**	**(708)**	**(653)**	(173)	(686)	(859)
Total interest income	**$ 705**	**$ (1,102)**	**$ (397)**	$ 1,186	$ (3,839)	$ (2,653)
Liabilities						
Deposits						
Canada	**$ 278**	**$ 84**	**$ 362**	$ 70	$ (1,818)	$ (1,748)
United States	**1**	**(224)**	**(223)**	379	(1,007)	(628)
Other International	**(9)**	**(372)**	**(381)**	315	(942)	(627)
Obligations related to securities sold short	**118**	**(76)**	**42**	130	13	143
Obligations related to assets sold under repurchase agreements	**66**	**72**	**138**	(12)	(468)	(480)
Subordinated debentures	**(17)**	**(13)**	**(30)**	7	(11)	(4)
Other interest-bearing liabilities	**65**	**(90)**	**(25)**	94	(40)	54
Total interest expense	**502**	**(619)**	**(117)**	983	(4,273)	(3,290)
Net interest income	**$ 203**	**$ (483)**	**$ (280)**	$ 203	$ 434	$ 637

(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.

TABLE 7 **Net interest income on average assets and liabilities**

(C$ millions, except percentage amounts)	Average balances (1)			Interest (2)			Average rate		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Assets									
Deposits with banks									
Canada	**$ 393**	$ 331	$ 427	**$ 7**	$ 6	$ 18	**1.78%**	1.81%	4.22%
United States	**6,688**	5,635	6,040	**101**	143	335	**1.51**	2.54	5.55
Other International	**10,679**	9,760	10,128	**266**	333	478	**2.49**	3.41	4.72
	17,760	15,726	16,595	**374**	482	831	**2.11**	3.06	5.01
Securities									
Trading account	**70,974**	66,631	53,477	**1,908**	1,945	2,143	**2.69**	2.92	4.01
Available for sale	**31,795**	25,583	21,623	**832**	907	932	**2.62**	3.55	4.31
	102,769	92,214	75,100	**2,740**	2,852	3,075	**2.67**	3.09	4.09
Assets purchased under reverse repurchase agreements	**41,565**	35,463	29,591	**787**	651	1,163	**1.89**	1.84	3.93
Loans (3)									
Canada									
Residential mortgage	**69,911**	65,901	62,449	**3,896**	3,903	4,087	**5.57**	5.92	6.54
Personal	**27,201**	26,631	28,089	**1,837**	1,734	2,325	**6.75**	6.51	8.28
Credit card	**5,197**	4,354	4,586	**615**	519	556	**11.83**	11.92	12.12
Business and government	**27,771**	30,217	33,890	**1,842**	1,291	1,281	**6.63**	4.27	3.78
	130,080	127,103	129,014	**8,190**	7,447	8,249	**6.30**	5.86	6.39
United States	**28,754**	30,307	20,561	**1,388**	1,791	1,699	**4.83**	5.91	8.26
Other International	**12,082**	11,539	12,671	**572**	1,225	2,084	**4.73**	10.62	16.45
	170,916	168,949	162,246	**10,150**	10,463	12,032	**5.94**	6.19	7.42
Total interest-earning assets	**333,010**	312,352	283,532	**14,051**	14,448	17,101	**4.22**	4.63	6.03
Non-interest-bearing deposits with banks	**1,947**	1,753	1,188						
Customers' liability under acceptances	**6,838**	8,515	9,890						
Other assets	**62,411**	51,465	39,125						
Allowance for credit losses	**(2,206)**	(2,285)	(2,035)						
Total assets	**$402,000**	$371,800	$331,700	**$14,051**	$14,448	$17,101	**3.50%**	3.89%	5.16%
Liabilities and shareholders' equity									
Deposits (4)									
Canada	**$122,159**	$111,880	$110,228	**$ 3,326**	$ 2,964	$ 4,712	**2.72%**	2.65%	4.27%
United States	**40,237**	40,208	29,977	**564**	787	1,415	**1.40**	1.96	4.72
Other International	**68,316**	68,641	60,482	**1,577**	1,958	2,585	**2.31**	2.85	4.27
	230,712	220,729	200,687	**5,467**	5,709	8,712	**2.37**	2.59	4.34
Obligations related to securities sold short	**22,624**	19,563	16,358	**839**	797	654	**3.71**	4.07	4.00
Obligations related to assets sold under repurchase agreements	**22,522**	19,630	19,892	**552**	414	894	**2.45**	2.11	4.49
Subordinated debentures	**6,792**	7,089	6,972	**376**	406	410	**5.54**	5.73	5.88
Other interest-bearing liabilities	**7,889**	5,546	3,042	**169**	194	140	**2.14**	3.50	4.60
Total interest-bearing liabilities	**290,539**	272,557	246,951	**7,403**	7,520	10,810	**2.55**	2.76	4.38

Non-interest-bearing deposits	**20,947**	21,540	20,732						
Acceptances	**6,838**	8,515	9,890						
Other liabilities	**65,010**	50,626	38,192						
Total liabilities	**383,334**	353,238	315,765	**7,403**	7,520	10,810	**1.93**	2.13	3.42
Shareholders' equity									
Preferred	**1,185**	1,682	2,036						
Common	**17,481**	16,880	13,899						
Total liabilities and shareholders' equity	**$402,000**	$371,800	$331,700	**$ 7,403**	$ 7,520	$10,810	**1.84%**	2.02%	3.26%
Net interest income as a % of total average assets	**$402,000**	$371,800	$331,700	**$ 6,648**	$ 6,928	$ 6,291	**1.65%**	1.86%	1.90%
Net interest income as a % of total average interest-earning assets									
Canada	**$200,595**	$199,066	$186,480	**$ 5,190**	$ 5,466	$ 5,493	**2.59%**	2.75%	2.95%
United States	**59,933**	52,230	39,696	**1,187**	1,106	371	**1.98**	2.12	.93
Other International	**72,482**	61,056	57,356	**271**	356	427	**.37**	.58	.74
Total	**$333,010**	$312,352	$283,532	**$ 6,648**	$ 6,928	$ 6,291	**2.00%**	2.22%	2.22%

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

(2) Interest income includes loan fees of $303 million (2002 — $321 million; 2001 — $328 million).

(3) Average balances include nonaccrual loans.

(4) Deposits include savings deposits with average balances of $38 billion (2002 — $39 billion; 2001 — $38 billion), interest expense of $.3 billion (2002 — $.3 billion; 2001 — $.6 billion) and average rates of ..78% (2002 — .69%; 2001 — 1.58%). Deposits also include term deposits with average balances of $161 billion (2002 — $155 billion; 2001 — $145 billion), interest expense of $4.1 billion (2002 — $4.4 billion; 2001 — $6.9 billion) and average rates of 2.52% (2002 — 2.84%; 2001 — 4.79%).

Non-interest income

As shown in Table 8 on page 41, non-interest income was up $167 million, or 2%, from 2002, despite a $375 million decline in the translated value of U.S. dollar-denominated revenues, for the reasons discussed below.

Trading revenues were up $243 million or 14%, largely in fixed income and money market trading, reflecting the impact of the favourable interest rate environment on trading revenues. Insurance premiums, investment and fee income were up $135 million or 7%, largely due to a $76 million increase associated with the acquisition of Business Men's Assurance Company of America on May 1, 2003, an $83 million increase in investment income associated with customer holdings of Universal Life products and a $66 million increase in home & auto insurance revenues, offset by lower reinsurance revenues. Gain (loss) on sale of available for sale securities was up $131 million, largely due to $112 million of net losses on sale of available for sale securities in 2002 that did not recur this year. Deposit and payment service charges were up $37 million or 4% due to higher automated banking machine revenues and payment processing volumes. Underwriting and other advisory fees were up $28 million, or 4%, reflecting an improvement in capital

markets activity in the last six months of the fiscal year, and card service revenues were up $18 million or 6% due to higher retail transaction volumes. However, investment management and custodial fees were down $34 million, or 3%, and mutual fund revenues were $50 million, or 7% lower, reflecting weak equity markets in the first six months of the year. Mortgage banking revenues (which relate to mortgages originated in the U.S. by RBC Centura and its subsidiary RBC Mortgage) were down $60 million or 25%, reflecting additional hedging and other costs in the fourth quarter of 2003. Securities brokerage commissions were down $115 million or 9%, reflecting weak equities markets and the resultant lower client trading volumes during the first half of the year.

TABLE 8 **Non-interest income**

(C$ millions, except percentage amounts)	2003	2002	2001	2003 vs 2002 Increase (decrease)	
Insurance premiums, investment and fee income	**$ 2,045**	$ 1,910	$1,695	**$ 135**	**7%**
Trading revenues	**2,009**	1,766	1,820	**243**	**14**
Investment management and custodial fees	**1,143**	1,177	1,094	**(34)**	**(3)**
Securities brokerage commissions	**1,108**	1,223	1,045	**(115)**	**(9)**
Deposit and payment service charges	**1,078**	1,041	887	**37**	**4**
Mutual fund revenues	**673**	723	692	**(50)**	**(7)**
Underwriting and other advisory fees	**671**	643	478	**28**	**4**
Card service revenues	**303**	285	290	**18**	**6**
Foreign exchange revenues, other than trading	**279**	274	291	**5**	**2**
Credit fees	**227**	223	237	**4**	**2**
Mortgage banking revenues	**180**	240	206	**(60)**	**(25)**
Securitization revenues	**165**	172	125	**(7)**	**(4)**
Gain (loss) on sale of available for sale securities	**19**	(112)	(130)	**131**	**n.m.**
Gain from divestitures (1)	**—**	—	445	**—**	**—**
Other	**399**	567	339	**(168)**	**(30)**
Total	**$10,299**	$10,132	$9,514	**$ 167**	**2%**

(1) Gain on divestitures in 2001 included $89 million on formation of Moneris Solutions joint venture, $43 million on sale of Group Retirement Services and $313 million on sale of RT Capital Management.

n.m. not meaningful

Other non-interest income declined by $168 million or 30%, mainly due to a $55 million charge for equity losses on private equity investments and a $69 million decline in fair value of non-trading derivatives for which hedge accounting was not permitted. The losses on private equity investments related largely to the four years ended October 31, 2003. These losses were recognized as a result of our determination that certain private equity investments should be accounted for using the equity method of accounting rather than the previously applied cost method of accounting.

Non-interest income accounted for 61% of total revenues, up from 59% in 2002.

TABLE 9 **Trading revenues**

(C$ millions)	2003	2002	2001
Net interest income (1)	**$ 73**	$ 127	$ (68)
Non-interest income (2)	**2,009**	1,766	1,820
Total	**$ 2,082**	$ 1,893	$ 1,752
By product			
Equity	**$ 614**	$ 753	$ 684
Fixed income and money markets (3)	**1,167**	876	726
Foreign exchange contracts (4)	**301**	264	342
Total	**$ 2,082**	$ 1,893	$ 1,752

(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 government securities and corporate debt instruments, swaps, interest rate options, interest rate futures and forward rate agreements.

(4) Includes primarily foreign exchange spot, forward, futures and options contracts as well as commodity and precious metals.

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. Proprietary trading activities are strictly managed in accordance with Value-At-Risk (VAR) and trading limits and we continue to conduct the majority of client-related trading in the major G7 markets and currencies. A description of trading revenues included in net interest income and non-interest income is provided in Table 9 above.

As shown in Table 9 above, total trading revenues were up $189 million or 10% in 2003. Fixed income and money market trading revenues increased by $291 million, or 33%, reflecting the impact of the favourable interest rate environment, which resulted in higher bond trading revenues in international and domestic markets. Structured products, including credit derivatives, also experienced better results as a result of growth in client volumes and favourable trading returns. Foreign exchange contract trading revenues increased by $37 million, or 14%, due to higher volumes in both spot and derivative markets as global currency volatility increased. Increased sales and marketing efforts have enhanced foreign exchange trading volumes with institutional and corporate clients, while prudent risk taking and analytics contributed to higher trading revenues. Equity trading revenues decreased by $139 million, or 18%. Institutional equity trading volumes in listed and OTC markets declined during the year.

Financial priority: Cost control

Highlight

- Non-interest expense was unchanged from 2002

Non-interest expense was unchanged from 2002. While the stronger Canadian dollar relative to the U.S. dollar reduced translated value of non-interest expense by $340 million, this reduction was offset by increases in pension and other postretirement benefit costs, costs related to further automating our retail banking technology infrastructure and expanding our retail banking sales force in Canada and costs relating to companies we acquired during the year.

As shown in Table 10 on page 43, human resources costs increased by $134 million or 2% in 2003, reflecting a $142 million or 18% increase in benefits expense. The increase in benefits expense was principally due to a $56 million increase in pension benefit expense (largely due to the amortization of prior year actuarial losses resulting from lower asset returns and a lower discount rate used to value pension liabilities in 2003). Other postretirement benefit expense increased by $69 million, primarily due to the amortization of actuarial losses resulting from higher claims experiences and a lower discount rate used to value other post-retirement benefit liabilities in 2003 (see Note 17 on page 90). Salaries increased by $58 million or 2%, largely due to the additional salaries associated with expanding our retail banking sales force in Canada and salaries associated with acquisitions that closed in 2003 (Admiralty Bancorp, Business Men's Assurance Company of America and Sterling Capital Mortgage Company). Stock compensation costs were up $19 million, reflecting the issuance of deferred shares. Acquisition retention compensation costs declined by $74 million to $84 million. We expect retention compensation costs relating to pre-2004 acquisitions to fall to approximately $45 million in 2004 and to $20 million in 2005.

Professional fees were up $47 million or 11% due to an increase in fees paid to external service providers to deal with increased volumes at RBC Mortgage and also an increase in systems upgrade and conversion costs at RBC Centura. Equipment costs were up $14 million or 2%. However, outsourced item processing costs were down $14 million or 5%, occupancy costs were down $21 million or 3%, communications costs were down $46 million or 6% and other costs were down $121 million or 14%.

Continuing our focus on cost control

The cost control initiatives undertaken in 2003 and in prior years are continuing to yield favourable results. Despite higher costs associated with growing our business, enhancing the client experience, and investing in new sales positions and technology, non-interest expense was essentially unchanged from 2002, aided by a stronger Canadian dollar, which reduced the translated value of U.S. dollar-denominated expenses.

RBC Banking continued its monitoring and containment of controllable expenses and focused on a number of initiatives. Discretionary expenses in Canada, which include stationery, professional fees and travel, were reduced by 9% from a year ago, select internal reports were eliminated, and we discontinued mailing cancelled cheques with interim statements to business clients, generating $30 million of savings in total. In the U.S., RBC Centura continued to integrate functions into RBC Royal Bank to take advantage of our Canadian operations' scale and expertise and to reduce costs. In 2002, RBC Centura's mainframe computer processing was relocated into the main processing centre in Ontario, generating cost savings in 2003, in addition to increasing scale and performance.

Moving into 2004, we expect savings from a new service platform for tellers, which we expect to begin using in January 2004 and which will simplify and streamline transaction processing and should also enhance client service levels. We also expect to realize savings from a new real-time image based tracing system, which replaces the current manual process used to resolve client issues and further enhances our fraud detection and prevention capability. However, we will continue to invest in providing standardized and flexible solutions across client segments, channels and products. These investments are expected to result in a superior client experience and net cost savings commencing in 2007 but expense outlays that exceed revenue benefits and cost savings prior to that time. In 2004, RBC Centura will continue to focus on reducing costs and improving efficiency. All in all, we are aiming to grow RBC Banking expenses by at least 2 percentage points less than revenues in each of the next three years.

RBC Insurance realized cost savings in 2003 through the introduction of a number of initiatives geared to reducing costs and enhancing efficiency. For example, the insurance operation consolidated a number of business locations, both in Canada and the U.S., to leverage existing capacity and improve service levels. In addition, RBC Insurance consolidated its technology services into a single group in order to build an integrated North American technology organization for the business. RBC Insurance also integrated recently acquired BMA into its existing operations, including moving the administration of a fixed block of business to its Greenville, South Carolina, operations in less than 30 days following the close, achieving cost reductions in excess of 30% of the pre-acquisition cost base.

At RBC Investments, the cost-cutting program, initiated in 2001 to offset the effects of market weakness, continued into 2003 and is expected to further progress in 2004. In 2003, cost savings were achieved by reducing overhead costs through integration of select branch offices and support facilities of the Canadian full-service brokerage business, restructuring the U.S. and Caribbean private banking units and right-sizing the U.S. brokerage business in response to the weak market environment during the first six months of the fiscal year. RBC Dain Rauscher achieved cost savings through the realization of the full year benefit of the prior year's integration of Tucker Anthony Sutro, which was acquired on October 31, 2001, by realizing the remaining US$30 million of the originally targeted US$60 million of annual integration cost savings.

RBC Capital Markets achieved expense reductions in 2003 through a number of initiatives. It continued to integrate the Investment Banking and Global Equity operations in the U.S. During the year, primary Nasdaq trading functions were moved from Minneapolis to New York to increase operational efficiency, while sales and trading positions that covered East coast accounts were relocated from Minneapolis to New York to better align them with the markets they serve. Also, trading operations groups in London and Toronto were integrated to eliminate duplicate and inefficient processes and generate cost savings. In addition, we are continuing to reduce loan portfolio management costs (including those relating to the structured lending portfolio). A lending process review, undertaken in 2003, has resulted in ongoing process changes that are expected to provide savings into 2004 and beyond. RBC Capital Markets will continue its focus on cost control in 2004.

TABLE 10 **Non-interest expense**

(C$ millions, except percentage amounts)	2003	2002	2001	2003 vs 2002 Increase (decrease)	
Human resources					
Salaries (1)	**$ 3,247**	$ 3,189	$ 2,747	**$ 58**	**2%**
Variable compensation	**2,084**	2,095	2,056	**(11)**	**(1)**
Acquisition-related retention compensation	**84**	158	176	**(74)**	**(47)**
Benefits	**925**	783	694	**142**	**18**
Stock compensation (2)	**57**	38	23	**19**	**50**
	6,397	6,263	5,696	**134**	**2**
Occupancy					
Net premises rent	**571**	587	553	**(16)**	**(3)**
Premises repairs and maintenance	**72**	70	55	**2**	**3**
Depreciation	**95**	103	91	**(8)**	**(8)**
Property taxes	**11**	11	6	**—**	**—**
Energy	**18**	17	11	**1**	**6**
	767	788	716	**(21)**	**(3)**
Equipment					
Office and computer rental and maintenance (1)	**481**	467	417	**14**	**3**
Depreciation	**285**	285	296	**—**	**—**
	766	752	713	**14**	**2**
Communications					
Telecommunication	**315**	350	283	**(35)**	**(10)**
Marketing and public relations	**212**	211	180	**1**	**—**
Postage and courier	**113**	121	108	**(8)**	**(7)**
Stationery and printing	**104**	108	108	**(4)**	**(4)**
	744	790	679	**(46)**	**(6)**
Professional fees (1)	**466**	419	411	**47**	**11**
Outsourced item processing	**292**	306	303	**(14)**	**(5)**
Amortization of goodwill	**—**	—	252	**—**	**—**
Amortization of other intangibles	**71**	72	36	**(1)**	**(1)**
Other					
Business and capital taxes	**144**	129	171	**15**	**12**
Travel and relocation	**140**	144	121	**(4)**	**(3)**
Employee training	**39**	46	43	**(7)**	**(15)**
Donations	**38**	41	35	**(3)**	**(7)**
Other (1)	**372**	494	465	**(122)**	**(25)**
	733	854	835	**(121)**	**(14)**
Total	**$10,236**	$10,244	$ 9,641	**$ (8)**	**—**

(1) Includes, in 2001, a U.S. retail banking restructuring charge comprising salaries of $22 million, office and computer rental and maintenance of $42 million, professional fees of $21 million and other of $6 million.

(2) Includes the cost of stock options, stock appreciation rights and performance deferred shares.

RBC Global Services realized cost savings in 2003 through a number of initiatives. Institutional & Investor Services undertook a review of common processes across the various business units to enhance efficiency and reduce costs, which resulted in a number of initiatives including the creation of a global account reconciliation services unit to perform account reconciliation activities for all domestic and global operations and the centralization of securities trade processing in Canada into one specialized unit. Treasury Management & Trade realized cost savings through a number of process improvement and technology initiatives, including the migration of regional electronic business banking support functions into its national client service centre and the introduction of a streamlined technology-based client enrollment process in its cash

management business. These initiatives are expected to deliver cost savings in excess of $5 million annually.

In addition to each platform undertaking its own cost-containment initiatives, we have an E ^{2} (efficiency and effectiveness) effort underway throughout the group. In this regard, throughout 2003, we continued to review infrastructure and functional costs on an enterprise-wide basis, with the objective of eliminating duplication across businesses and functions and creating shared services to leverage centres of expertise. In 2004, we will review several larger initiatives to develop common systems and operational processes, enabling us to build a strong infrastructure to support our business expansion plans. This should also free up resources that can be redirected to enhancing client service and growing revenue.

TABLE 11 **Taxes**

(C$ millions, except percentage amounts)	2003	2002	2001
Income taxes	**$ 1,443**	$ 1,415	$ 1,350
Other taxes			
Goods and services and sales taxes	**220**	224	221
Payroll taxes	**267**	245	237
Capital taxes	**124**	107	146
Property taxes (1)	**11**	11	6
Business taxes	**20**	22	25
Insurance premium taxes	**26**	22	21
	668	631	656
Total	**$ 2,111**	$ 2,046	$ 2,006
Effective income tax rate (2)	**31.4%**	32.0%	34.7%
Effective total tax rate (3)	**40.1%**	40.5%	44.1%

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

(2) Income taxes, as a percentage of net income before income taxes.

(3) Total income and other taxes as a percentage of net income before income and other taxes.

Income and other taxes

Our operations are subject to a variety of taxes, including taxes on income and capital assessed by Canadian federal and provincial governments and the governments of foreign jurisdictions where we operate. Taxes are also assessed on expenditures or supplies consumed in support of our operations.

Income and other taxes shown in Table 11 above were $2,111 million in 2003, comprising income taxes of $1,443 million and other taxes of $668 million. Income taxes increased by $28 million from 2002, largely due to higher net income before tax. Other taxes increased by $37 million, largely due to an increase in the amount of payroll and capital taxes paid.

As shown above, the effective income tax rate decreased from 32.0% in 2002 to 31.4% in 2003, 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, we recorded income taxes of $895 million in 2003 ($7 million recovery in 2002) in shareholders' equity as shown in Note 15 on page 88.

Financial priority: Strong credit quality

Highlights

- Business and government loans and acceptances decreased from 39% of total loans and acceptances in 2002 to 34% at October 31, 2003
- Nonaccrual loans down 24% to lowest level since 2000
- Nonaccrual loans to total loans and acceptances down from 1.27% to .98%
- Provision for credit losses down 33% to $.7 billion, lowest level since 2000
- Allocated specific provision ratio of .33%, down from .50%
- Net charge-offs ratio of .45%, down from .71%
- Allowance for credit losses down slightly from $2.3 billion to $2.2 billion

Loan portfolio

During 2003, our loan portfolio performed well, reflecting changes in our credit practices adopted over the past few years. Three significant items affected the portfolio during 2003. The first item relates to our continued efforts to move towards a lower-risk portfolio mix, which includes more residential mortgage loans and fewer corporate loans, which entail higher risk and capital underpinning. As shown in the charts below, business and government loans and acceptances decreased to 34% of total loans and acceptances in 2003 from 43% in 1999. A significant portion of this change occurred in 2003. The second item relates to our efforts to reduce exposure to the more sensitive and capital intensive sectors. The third item relates to further acquisitions in connection with our U.S. expansion strategy.

The portion of our business and government credit exposure rated investment grade remained relatively flat, moving from 70% in 2002 to 69% in 2003. Business and government loans include our small business portfolio of $9.7 billion, which is generally rated lower than our exposures to larger businesses.

Table 12 on page 47 and Table 17 on page 52 provide a detailed breakdown of loans and acceptances. Our loan portfolio continues to be well diversified. Business and government loans and acceptances declined in 2003 due to our strategy of exiting non-core client relationships in RBC Capital Markets, the implementation of new single-name limits and an overall decline in demand for credit as corporate balance sheets have strengthened.

Our efforts to reduce business and government loans are reflected by decreases in various sectors. Decreases in the energy sector occurred in Canada ($1.2 billion), the United States ($1.5 billion) and other international ($.4 billion). The energy sector has been affected by two items in particular. Loans to the oil and gas (exploration and production) sub-sector have declined as a result of consolidation in the industry and our efforts to reduce single-name concentrations. The other factor has been a concerted effort to reduce exposure to the sensitive power generation and distribution sub-sector where loan outstandings have declined by 41% from 2002 to $1.2 billion.

Transportation and environment loans exposure decreased by $1.1 billion in total. Decreases occurred in both Canada ($.3 billion) and international ($.8 billion). Airlines and aerospace loans have been identified as a sensitive sub-sector and targeted for reduction. Over the year loans outstanding were down $.4 billion or 35% to $.7 billion. The decrease in international includes a reduction in loan outstandings ($.5 billion) to a particular counterparty in the United Kingdom.

Loans to telecommunications companies are also being actively managed down. Loan outstandings have decreased by 69% from $1.7 billion at year-end 2002 to only $.5 billion at the end of 2003. The decreases are spread out over Canada, United States and other international.

Loans to hotels, restaurants and entertainment companies have decreased $.3 billion or 10% to $2.8 billion. Approximately 38% of these loans are reported in the small business sector with the remainder in the Other sector.

Although the overall business and government portfolio decreased, there were some increases in certain areas related to our U.S. expansion strategy. During 2003 we acquired Admiralty Bancorp, Inc. (Admiralty) and Business Men's Assurance Company of America (BMA). The loans in BMA back the actuarial liabilities of the company. The increase in commercial real estate of $.9 billion in the U.S. reflects an increase of $1.5 billion resulting from the acquisitions of Admiralty and BMA which has been partially offset by other reductions.

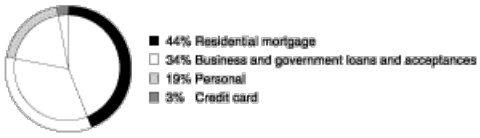
From a risk management perspective, the sectors that utilize the most Economic Capital (EC) are commercial real estate, energy and telecommunications. For a discussion of EC see page 54. As noted above, our real estate exposure has increased as a result of our U.S. expansion strategy but we are committed to managing this exposure. Although EC related to the energy and telecommunication sectors remains high, significant progress has been made in reducing outstandings.

Nonaccrual loans

Loans are generally classified as nonaccrual (meaning interest is no longer being accrued) under conditions described in Note 1 on page 72.

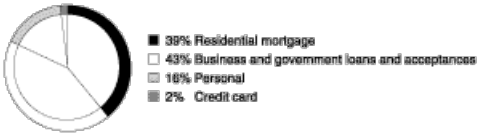
Breakdown of loans and acceptances portfolio (2003)

Significant change...



Breakdown of loans and acceptances portfolio (1999)

...in portfolio mix



As indicated in Table 13 on page 48, nonaccrual loans decreased by $543 million or 24% during the year to $1,745 million. Although charge-offs decreased from $1,457 million in 2002 to $976 million in 2003, the significant decrease in net additions from $1,280 million in 2002 to $433 million in 2003 resulted in an overall decrease in nonaccrual loans. Nonaccrual loans declined in both the consumer and the business and government loan portfolios and are at their lowest level since 2000.

Nonaccrual loans in the consumer portfolio declined by $71 million to $366 million, with Canada accounting for $54 million of the reduction. New additions declined, resulting from continued improvements in the portfolio due to benefits realized from the prior implementation of advanced risk modeling technology designed to optimize risk-reward and enhance credit policies and procedures.

Business and government nonaccrual loans fell $472 million to $1,379 million, with reductions of $154 million in Canada, $205 million in the U.S. and $113 million in other international. In Canada, the reductions were spread over various sectors including small business ($36 million), forest products ($30 million) and transportation and environment ($20 million). The level of small business nonaccrual loans continues to decline as a result of enhanced underwriting, monitoring and collection processes. The decrease in forest products largely relates to one particular counterparty. The reduction in transportation and environment results from the resolution of a significant land transportation account partially offset by the impairment of a Canadian transportation account. In the United States, at the end of 2003, there were no nonaccrual telecommunications loans compared to $77 million in 2002. This reduction largely resulted from charge-off, repayment and sale of nonaccrual loans from 2002. The other decreases were spread over various industries. In other international, nonaccrual loans in the mining and metals sector decreased by $71 million. This was largely due to one loan recovery. During the second half of the year, new nonaccrual loan formations declined.

At the end of 2003, approximately 70% of the original nonaccrual loan amount (amount when a loan was originally classified as non-accrual) in RBC Capital Markets has been charged off or specifically provided for.

Nonaccrual loans as a percentage of related loans and acceptances (before deducting the allowance for loan losses) decreased to .98% from 1.27% in 2002, reflecting improvements in both the Canadian and international ratios, as shown in Table 18 on page 52.

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 $715 million in 2003, down $350 million from 2002, as shown in Table 14 on page 49. This was the lowest level since 2000.

In the consumer portfolio, the allocated specific provision for credit losses decreased by $13 million, resulting from a decline of $18 million in Canada, partially offset by small increases in the United States and other international. The decline in Canada reflected a reduction in personal partially offset by an increase in credit card. Although the allocated specific provisions for credit cards increased, the ratio to average balances decreased from 3.10% in 2002 to 2.92% in 2003, as shown in Table 18 on page 52. This indicated that credit quality of the cards portfolio is being maintained as volume grows.

The allocated specific provision on business and government loans decreased by $337 million or 53% to $298 million in 2003. The largest decrease related to telecommunications loans ($262 million) as this sector was provisioned for in prior years and no additional amounts were required during the current year.

We acquire credit protection on portions of our portfolio by entering into credit derivative contracts. This year's provision for credit losses included an amount related to a European energy account that was classified as nonaccrual. The provision for credit losses was partially offset by a gain of $14 million on a related credit derivative, recorded in non-interest income in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). Management believes an analysis that nets credit derivative gains on accounts in default against the related provision for credit losses is useful since it reflects the full loss associated with such accounts and management considers such information when evaluating our credit exposures. Management also believes that investors may find this information useful in their assessment of our credit quality and risk management.

As shown in Table 18 on page 52, the allocated specific provision for credit losses amounted to .33% of average loans, acceptances and reverse repurchase agreements (.32% net of the effect of credit derivatives), down from .50% in 2002 (.48% net of the effect of credit derivatives). Under Canadian GAAP, the specific provision for credit losses ratio was .33% (.32% net of the effect of credit derivatives), down from .51% in 2002 (.49% net of the effect of credit derivatives) and well below our 2003 objective of .45–.55%.

Outlook

In 2004, we expect an allocated specific provision for credit losses ratio in the range of .35–.45% (using Canadian GAAP), consistent with our medium-term goal.

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 based on our assessment of problem accounts on an ongoing basis, 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 analyses, which are adjusted to take into

account management's assessment of underlying assumptions in relation to the current environment. As a result, the allowance for credit losses will not likely equal the actual losses incurred in the future. To minimize these differences, management undertakes an assessment of the methodology utilized and its underlying assumptions on a regular basis.

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

As shown in Table 15 on page 50, the allowance for credit losses decreased by $150 million or 6% from 2002 to $2,164 million, consistent with the reduction in nonaccrual loans over the same period. During the year, charge-offs, net of recoveries, declined to $806 million or .45% of average loans and acceptances, from $1,259 million or .71% a year ago as charge-offs taken in 2002 in certain sectors such as telecommunications were not required in 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. The strategies we use to minimize concentration risk are discussed further under risk mitigation in the Risk management section on page 55.

As shown in Table 12 on page 47, the largest Canadian exposure is in Ontario, which has 37% of total loans and acceptances. Internationally, the largest concentration is in the U.S., where we have 14% of our total loans and acceptances.

The largest sector concentrations, excluding small business, are in financial services, commercial real estate and agriculture with 5%, 5% and 3% of loans and acceptances, respectively.

Table 16 on page 51 shows contractual amounts with clients outside of Canada. Of the total international contractual amounts, $72 billion or 18% of total assets are in the United States and $51 billion or 12% of total assets are outside Canada and the U.S.

TABLE 12 **Loans and acceptances (1)**

(C$ millions, except percentage amounts)	2003	2002	2001	2000	1999	Percentage of total 2003	Percentage of total 1999
Canada							
Atlantic provinces (2)	**$ 10,021**	$ 9,770	$ 9,654	$ 9,690	$ 8,840	**5.6%**	5.7%
Quebec	**15,930**	15,190	13,863	16,191	14,936	**8.9**	9.7
Ontario	**65,922**	63,627	70,164	60,999	54,724	**37.0**	35.5
Prairie provinces (3)	**27,162**	26,989	25,192	29,402	25,521	**15.2**	16.6
British Columbia	**23,807**	23,367	22,696	25,118	23,141	**13.3**	15.0
Total Canada	**142,842**	138,943	141,569	141,400	127,162	**80.0**	82.5
Consumer							
Residential mortgage	**73,978**	67,700	64,066	61,444	58,524	**41.5**	38.0
Personal	**28,262**	25,918	27,202	27,207	24,353	**15.8**	15.8
Credit card	**4,663**	4,740	4,110	4,666	2,666	**2.6**	1.7
	106,903	98,358	95,378	93,317	85,543	**59.9**	55.5
Business and government loans and acceptances							
Small business (4)	**9,705**	9,470	9,788	11,701	10,334	**5.4**	6.7
Agriculture	**4,546**	4,427	4,758	4,931	4,217	**2.5**	2.7
Commercial mortgages	**2,616**	2,468	2,635	2,961	2,635	**1.5**	1.7
Consumer goods	**2,183**	2,238	2,447	2,874	2,086	**1.2**	1.4
Commercial real estate	**2,091**	2,393	2,325	2,594	2,400	**1.2**	1.6
Energy	**1,703**	2,911	4,293	3,754	3,350	**.9**	2.2
Government	**1,629**	1,039	1,597	1,385	2,105	**.9**	1.4
Automotive (5)	**1,472**	1,370	864	673	611	**.8**	.4
Industrial products	**1,372**	1,569	2,174	2,470	2,301	**.8**	1.5
Transportation and environment (5)	**1,112**	1,450	2,138	1,519	1,562	**.6**	1.0
Forest products	**956**	954	1,275	1,362	1,151	**.5**	.8
Financial services	**856**	3,015	3,010	2,218	1,567	**.5**	1.0
Media and cable (6)	**839**	994	1,510	1,120	1,135	**.5**	.7
Mining and metals	**333**	361	636	897	845	**.2**	.5
Telecommunication	**169**	487	677	1,008	525	**.1**	.3
Information technology	**114**	191	203	210	191	**.1**	.1
Other	**4,243**	5,248	5,861	6,406	4,604	**2.4**	3.0
	35,939	40,585	46,191	48,083	41,619	**20.1**	27.0
Total Canada	**142,842**	138,943	141,569	141,400	127,162	**80.0**	82.5
International							
United States	**25,151**	29,192	25,944	13,415	13,060	**14.1**	8.5
Europe, Middle East and Africa	**6,755**	6,340	7,918	6,544	6,617	**3.8**	4.3
Caribbean	**1,941**	2,018	1,856	2,059	1,502	**1.1**	1.0
Latin America	**646**	1,400	1,680	1,842	2,309	**.4**	1.5
Asia	**729**	1,004	1,328	1,781	2,417	**.4**	1.6
Australia and New Zealand	**426**	677	805	771	983	**.2**	.6
Total international	**35,648**	40,631	39,531	26,412	26,888	**20.0**	17.5
Consumer							
Residential mortgage	**4,841**	5,142	3,378	1,540	718	**2.7**	.5
Personal	**5,741**	6,038	5,309	812	902	**3.2**	.6
Credit card	**153**	174	173	—	—	**.1**	—
	10,735	11,354	8,860	2,352	1,620	**6.0**	1.1
Business and government loans and acceptances							
Consumer goods	**983**	1,383	1,699	1,111	1,411	**.6**	.9
Commercial real estate	**5,984**	5,124	4,082	271	464	**3.4**	.3
Energy	**1,872**	3,731	2,994	3,051	3,887	**1.1**	2.5
Government	**126**	130	128	167	773	**.1**	.5
Automotive	**323**	411	527	513	878	**.2**	.6
Industrial products	**532**	1,199	2,116	1,749	1,325	**.3**	.9
Transportation and environment	**1,676**	2,442	1,571	1,487	1,975	**.9**	1.3

Forest products	**193**	417	385	468	549	**.1**	.4
Financial services	**7,445**	6,542	9,347	7,912	6,937	**4.2**	4.5
Media and cable (6)	**949**	1,321	1,380	2,033	1,909	**.5**	1.2
Mining and metals	**565**	1,192	1,071	901	881	**.3**	.6
Telecommunication	**371**	1,246	1,558	2,244	1,206	**.2**	.8
Information technology	**81**	180	396	433	709	**—**	.4
Other	**3,813**	3,959	3,417	1,720	2,364	**2.1**	1.5
	24,913	29,277	30,671	24,060	25,268	**14.0**	16.4
Total international	**35,648**	40,631	39,531	26,412	26,888	**20.0**	17.5
Total loans and acceptances	**178,490**	179,574	181,100	167,812	154,050	**100.0%**	100.0%
Allowance for loan losses	**(2,055)**	(2,203)	(2,278)	(1,871)	(1,884)		
Total	**$176,435**	$177,371	$178,822	$165,941	$152,166		

(1) Based on residence of borrower.

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

(3) Comprises Manitoba, Saskatchewan and Alberta.

(4) Comprises the following industries in 2003: commercial real estate of $1,777 million (2002 — $1,737 million; 2001 — $1,788 million), consumer goods of $1,777 million (2002 — $1,583 million; 2001 — $1,665 million), industrial products of $952 million (2002 — $887 million; 2001 — $916 million), transportation and environment of $503 million (2002 — $552 million; 2001 — $605 million), automotive of $462 million (2002 — $377 million; 2001 — $434 million), forest products of $298 million (2002 — $278 million; 2001 — $296 million), energy of $137 million (2002 — $125 million; 2001 — $157 million), information technology of $113 million (2002 — $93 million; 2001 — $133 million), mining and metals of $65 million (2002 — $69 million; 2001 — n.a.), financial services of $136 million (2002 — $132 million; 2001 — $96 million), media and cable of $81 million (2002 — $77 million; 2001 — $84 million), telecommunications of $48 million (2002 — $34 million; 2001 — $45 million), and other of $3,356 million (2002 — $3,526 million; 2001 — $3,569 million).

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

(6) Includes cable loans of $236 million in Canada in 2003 (2002 — $267 million; 2001 — $330 million; 2000 — $262 million; 1999 — $169 million) and $432 million internationally in 2003 (2002 — $634 million; 2001 — $625 million; 2000 — $1,321 million; 1999 — $850 million).

TABLE 13 **Nonaccrual loans**

(C$ millions, except percentage amounts)	2003	2002	2001	2000	1999
Canada					
Atlantic provinces (1)	**$ 81**	$ 107	$ 124	$ 115	$ 77
Quebec	**155**	90	282	198	259
Ontario	**348**	471	621	572	438
Prairie provinces (2)	**140**	177	143	129	198
British Columbia	**340**	427	453	355	415
Total Canada	**1,064**	1,272	1,623	1,369	1,387
Consumer					
Residential mortgage	**110**	102	142	185	173
Personal	**213**	275	310	247	236
	323	377	452	432	409
Business and government					
Small business (3)	**169**	205	261	248	232
Agriculture (3)	**127**	141	111	53	62
Commercial mortgages	**24**	17	22	16	25
Consumer goods	**32**	47	11	37	43
Commercial real estate	**8**	23	95	90	186
Energy	**1**	1	27	—	38
Automotive	**—**	10	18	5	1
Industrial products	**18**	23	45	28	19
Transportation and environment	**118**	138	274	185	21
Forest products	**169**	199	195	184	233
Financial services	**3**	—	7	20	16
Media and cable	**15**	18	43	36	42
Mining and metals	**—**	—	1	—	—
Telecommunication	**8**	20	—	—	2
Information technology	**17**	6	11	8	13
Other	**32**	47	50	27	45
	741	895	1,171	937	978
Total Canada	**1,064**	1,272	1,623	1,369	1,387
International					
United States	**361**	584	626	145	41
Europe, Middle East and Africa	**116**	115	79	46	58
Caribbean	**66**	71	55	48	47
Latin America	**109**	217	14	9	10
Asia	**1**	3	14	33	127
Australia and New Zealand	**28**	26	23	—	—
	681	1,016	811	281	283
LDCs	**—**	—	31	28	34
Total international	**681**	1,016	842	309	317
Consumer					
Residential mortgage	**21**	29	37	14	14
Personal	**22**	31	15	**—**	**—**
	43	60	52	14	14
Business and government					
Consumer goods	**16**	10	19	2	18
Commercial real estate	**65**	75	81	4	5
Energy	**239**	242	3	14	23
Automotive	**7**	29	33	—	5
Industrial products	**7**	30	10	83	38
Transportation and environment	**18**	68	91	56	—
Financial services	**42**	77	83	41	89
Media and cable (4)	**71**	56	—	—	—

Mining and metals	**57**	128	40	11	11
Telecommunication	**—**	77	272	—	—
Information technology	**11**	48	76	—	—
Other	**105**	116	82	84	114
	638	956	790	295	303
Total international	**681**	1,016	842	309	317
Total (5), (6)	**$ 1,745**	$ 2,288	$ 2,465	$ 1,678	$ 1,704

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

(2) Comprises Manitoba, Saskatchewan and Alberta.

(3) Includes government guaranteed portions of nonaccrual loans of $39 million in small business in 2003 (2002 — $64 million; 2001 — $95 million; 2000 — $101 million; 1999 — $79 million) and $9 million in agriculture (2002 — $10 million; 2001 — $6 million; 2000 — $6 million; 1999 — $5 million).

(4) Consists entirely of cable loans.

(5) Includes foreclosed assets of $34 million in 2003 (2002 — $32 million; 2001 — $37 million; 2000 — $16 million; 1999 — $26 million).

(6) Past due loans greater than 90 days not included in nonaccrual loans was $222 million in 2003 (2002 — $217 million; 2001 — $245 million).

TABLE 14 **Provision for credit losses**

(C$ millions, except percentage amounts)	2003	2002	2001	2000	1999
Canada					
Atlantic provinces (1)	**$ 46**	$ 59	$ 63	$ 58	$ 32
Quebec	**77**	(5)	43	22	71
Ontario	**303**	330	398	342	52
Prairie provinces (2)	**55**	86	81	64	95
British Columbia	**40**	59	104	40	192
Total Canada	**521**	529	689	526	442
Consumer					
Residential mortgage	**4**	3	8	—	4
Personal	**230**	266	265	301	172
Credit card	**152**	135	125	102	55
	386	404	398	403	231
Business and government					
Small business	**77**	110	164	105	113
Agriculture	**(2)**	22	20	4	2
Commercial mortgages	**(3)**	(5)	7	2	8
Consumer goods	**2**	19	2	7	11
Commercial real estate	**(14)**	(15)	15	(17)	9
Energy	**—**	4	17	(8)	12
Automotive	**—**	—	17	—	—
Industrial products	**2**	(7)	14	2	(10)
Transportation and environment	**69**	(19)	13	56	7
Forest products	**13**	4	7	(36)	81
Financial services	**(4)**	(27)	(9)	—	5
Media and cable	**1**	(7)	13	12	8
Mining and metals	**1**	(1)	—	(1)	1
Telecommunication	**(1)**	59	—	(1)	(32)
Information technology	**2**	3	3	8	8
Other	**(8)**	(15)	8	(10)	(12)
	135	125	291	123	211
Total Canada	**521**	529	689	526	442
International					
United States	**108**	440	377	99	45
Europe, Middle East and Africa	**64**	38	(1)	(9)	21
Caribbean	**8**	6	(6)	3	—
Latin America	**15**	57	5	2	2
Asia	**(1)**	(10)	(19)	(50)	20
Australia and New Zealand	**—**	5	4	—	—
Total international	**194**	536	360	45	88
Consumer					
Residential mortgage	**4**	7	—	—	1
Personal	**24**	15	5	—	—
Credit card	**3**	4	2	—	—
	31	26	7	—	1
Business and government					
Consumer goods	**8**	(2)	—	(7)	(10)
Commercial real estate	**5**	4	65	1	2
Energy	**78**	141	(8)	(2)	—
Automotive	**(1)**	1	7	(8)	(2)
Industrial products	**(1)**	5	3	34	31
Transportation and environment	**8**	21	8	42	**—**
Financial services	**3**	21	(3)	(21)	2
Media and cable	**26**	—	3	—	—
Mining and metals	**4**	28	—	2	15
Telecommunication	**—**	202	272	—	—

Information technology	**(4)**	41	7	—	3
Other	**37**	48	(1)	4	46
	163	510	353	45	87
Total international	**194**	536	360	45	88
Allocated specific provision	**715**	1,065	1,049	571	530
Allocated general provision (3)	**6**	(22)	205	73	n.a.
Total allocated provision (3)	**721**	1,043	1,254	644	n.a.
Unallocated provision (3)	**(6)**	22	(135)	47	n.a.
Total	**$ 715**	$ 1,065	$ 1,119	$ 691	$ 760

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

(2) Comprises Manitoba, Saskatchewan and Alberta.

(3) The allocated general provision and the unallocated provision together totalled $230 million in 1999. This was not separated into the allocated general and unallocated components.

TABLE 15 **Allowance for credit losses**

(C$ millions, except percentage amounts)	2003	2002	2001	2000	1999
Allowance at beginning of year	**$ 2,314**	$ 2,392	$ 1,975	$ 1,900	$ 2,066
Provision for credit losses	**715**	1,065	1,119	691	760
Charge-offs					
Canada					
Residential mortgage	**(6)**	(11)	(15)	(11)	(14)
Personal	**(345)**	(381)	(394)	(372)	(236)
Credit card	**(188)**	(172)	(169)	(150)	(65)
Business and government	**(218)**	(330)	(296)	(225)	(524)
	(757)	(894)	(874)	(758)	(839)
International					
Residential mortgage	**(4)**	(1)	(9)	—	—
Personal	**(28)**	(17)	(7)	—	—
Credit card	**(4)**	(6)	(2)	—	—
Business and government	**(183)**	(506)	(233)	(81)	(229)
LDC exposures	**—**	(33)	—	—	(4)
	(219)	(563)	(251)	(81)	(233)
	(976)	(1,457)	(1,125)	(839)	(1,072)
Recoveries					
Canada					
Residential mortgage	**—**	—	—	—	2
Personal	**66**	68	66	44	31
Credit card	**36**	37	44	48	10
Business and government	**53**	72	58	48	66
	155	177	168	140	109
International					
Personal	**2**	2	1	—	—
Credit card	**1**	1	—	—	—
Business and government	**12**	18	16	22	5
	15	21	17	22	5
	170	198	185	162	114
Net charge-offs	**(806)**	(1,259)	(940)	(677)	(958)
Acquisition of Admiralty Bancorp, Inc.	**8**	—	—	—	—
Acquisition of Eagle Bancshares, Inc.	**—**	18	—	—	—
Acquisition of Centura Banks, Inc.	**—**	—	157	—	—
Adjustments	**(67)**	98	81	61	32
Allowance at end of year	**$ 2,164**	$ 2,314	$ 2,392	$ 1,975	$ 1,900
Allocation of allowance (1)					
Canada					
Residential mortgage	**$ 33**	$ 35	$ 45	$ 46	$ 53
Personal	**395**	429	447	403	344
Credit card	**147**	147	147	88	60
Business and government	**682**	711	791	664	748
	1,257	1,322	1,430	1,201	1,205
International					
Residential mortgage	**4**	6	4	11	9
Personal	**42**	36	33	—	—
Credit card	**4**	5	5	—	—
Business and government	**510**	583	581	322	380

	560	630	623	333	389
Allocated allowance for loan losses	**1,817**	1,952	2,053	1,534	1,594
Unallocated allowance for loan losses	**238**	251	225	337	290
Total allowance for loan losses	**2,055**	2,203	2,278	1,871	1,884
Allowance for off-balance sheet and other items (2)	**109**	109	109	98	—
Allowance for tax-exempt securities	**—**	2	5	6	16
Total allowance for credit losses	**$ 2,164**	$ 2,314	$ 2,392	$ 1,975	$ 1,900

(1) The allowance for loan losses includes an amount for the allocated general allowance, which has been allocated to loan categories. These amounts total $1,060 million (2002 — $1,060 million; 2001 — $1,076 million; 2000 — $765 million; 1999 — $790 million) and have been allocated as follows: for Canada — residential mortgage $21 million (2002 — $20 million; 2001 — $21 million; 2000 — $18 million; 1999 — $11 million), personal $266 million (2002 — $266 million; 2001 — $266 million; 2000 — $207 million; 1999 — $174 million), credit card $147 million (2002 — $147 million; 2001 — $147 million; 2000 — $88 million; 1999 — $60 million), business and government $385 million (2002 — $386 million; 2001 — $385 million; 2000 — $321 million; 1999 — $370 million), and for International — residential mortgage $2 million (2002 — $3 million; 2001 — $2 million; 2000 and 1999 — nil), personal $33 million (2002 — $22 million; 2001 — $26 million; 2000 and 1999 — nil), credit card $4 million (2002 — $5 million; 2001 — $5 million; 2000 and 1999 — nil), and business and government $202 million (2002 — $211 million; 2001 — $224 million; 2000 — $131 million; 1999 — $175 million).

(2) 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.

TABLE 16 **Foreign outstandings (1)**

(C$ millions, except percentage amounts)	2003	% of total assets	2002	% of total assets	2001	% of total assets
United States — Banks	**$ 7,204**		$ 5,838		$ 7,186	
Government	**7,970**		3,257		3,834	
Other	**57,086**		62,210		49,172	
	72,260	**17.51%**	71,305	18.67%	60,192	16.60%
Western Europe						
United Kingdom — Banks	**8,600**		7,179		6,275	
Government	**512**		295		153	
Other	**9,141**		5,719		5,256	
	18,253	**4.42**	13,193	3.45	11,684	3.22
France — Banks	**4,073**		2,061		2,378	
Government	**166**		86		68	
Other	**678**		831		1,176	
	4,917	**1.19**	2,978	.78	3,622	1.00
Germany — Banks	**5,974**		5,344		5,952	
Government	**1,309**		318		173	
Other	**385**		381		559	
	7,668	**1.86**	6,043	1.58	6,684	1.84
Netherlands	**2,458**	**.60**	2,271	.59	2,218	.61
Switzerland	**763**	**.18**	1,714	.45	1,362	.38
Other	**5,223**	**1.27**	5,658	1.48	5,244	1.45
	39,282	**9.52**	31,857	8.33	30,814	8.50
Central/Eastern Europe, Middle East and Africa	**198**	**.05**	247	.06	469	.13
Latin America						
Argentina	**87**	**.02**	146	.04	193	.05
Brazil	**33**	**.01**	38	.01	71	.02
Chile	**385**	**.09**	800	.21	836	.23
Mexico	**318**	**.08**	493	.13	696	.19
Other	**42**	**.01**	42	.01	174	.05
	865	**.21**	1,519	.40	1,970	.54
Caribbean						
Bahamas	**1,255**	**.30**	1,453	.38	1,520	.42
Other	**1,437**	**.35**	485	.13	1,902	.52
	2,692	**.65**	1,938	.51	3,422	.94
Asia						
Japan — Banks	**428**		321		53	
Government	**4,263**		2,426		1,663	
Other	**92**		64		988	
	4,783	**1.16**	2,811	.74	2,704	.75
Singapore	**289**	**.07**	229	.06	217	.06
South Korea	**389**	**.09**	405	.11	449	.12
Other	**330**	**.08**	38	.01	145	.04
	5,791	**1.40**	3,483	.92	3,515	.97
Australia and New Zealand	**2,425**	**.59**	2,842	.74	2,335	.65
Allowance for loan losses (2)	**(678)**	**(.16)**	(760)	(.20)	(728)	(.20)
Total	**$122,835**	**29.77%**	$112,431	29.43%	$101,989	28.13%

(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) 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 17 **U.S. loans and acceptances and loan quality information (1)**

(C$ millions)	Loan balances 2003	2002	2001	2000	Nonaccrual loans 2003	2002	2001	2000	Provision for credit losses 2003	2002	2001	2000
Consumer												
Residential mortgage	**$ 4,096**	$ 4,353	$ 2,666	$ 845	**$ 7**	$ 16	$ 24	$ —	**$ 3**	$ 7	$ 8	$ —
Personal	**5,015**	5,269	4,621	78	**22**	31	15	—	**24**	15	5	—
Credit card	**107**	125	128	—	**—**	—	—	—	**3**	4	2	—
	9,218	9,747	7,415	923	**29**	47	39	—	**30**	26	15	—
Business and government loans and acceptances												
Consumer goods	**816**	958	1,172	435	**16**	10	9	—	**8**	4	2	—
Commercial real estate	**5,480**	4,531	3,773	44	**65**	75	81	4	**5**	5	66	2
Energy	**1,200**	2,680	1,613	1,582	**114**	95	—	—	**16**	107	—	—
Government	**100**	19	23	—	**—**	—	—	—	**—**	—	—	—
Automotive	**318**	409	408	221	**7**	29	33	—	**(1)**	1	6	—
Industrial products	**449**	974	1,513	1,107	**5**	30	8	68	**(1)**	8	3	40
Transportation and environment	**350**	484	788	469	**9**	36	48	56	**7**	5	(4)	42
Forest products	**123**	223	98	181	**—**	—	—	—	**—**	—	—	—
Financial services	**3,011**	3,770	4,104	4,521	**9**	46	30	—	**—**	11	7	—
Media and cable (2)	**854**	1,107	1,038	1,782	**44**	56	—	—	**12**	—	3	—
Mining and metals	**91**	70	45	104	**—**	—	—	—	**—**	—	—	—
Telecommunication	**315**	689	835	1,131	**—**	77	272	—	**—**	202	272	—
Information technology	**81**	177	299	374	**11**	48	76	—	**(4)**	41	7	—
Other	**2,745**	3,354	2,820	541	**52**	35	30	17	**36**	30	—	15
	15,933	19,445	18,529	12,492	**332**	537	587	145	**78**	414	362	99
	$25,151	$29,192	$25,944	$13,415	**$ 361**	$ 584	$ 626	$ 145	**$ 108**	$ 440	$ 377	$ 99

(1) Based on residence of the borrower.

(2) Includes cable loans of $357 million (2002 — $522 million; 2001 — $455 million; (2000 — $1,162 million) and gross nonaccrual cable loans of $44 million (2002 — $56 million).

TABLE 18 **Risk profile**

(C$ millions, except percentage amounts)	2003	2002	2001	2000	1999
Percentage of loans and acceptances to total loans and acceptances					
Canada (1)					
Residential mortgage	**41%**	38%	35%	37%	38%
Personal	**16**	14	15	16	16
Credit card	**3**	3	2	3	2
Business and government	**18**	21	24	28	28
	78	76	76	84	84
International	**22**	24	24	16	16
Total	**100%**	100%	100%	100%	100%
Nonaccrual loans					
Beginning of year	**$ 2,288**	$ 2,465	$ 1,678	$ 1,704	$ 2,001
Net additions	**433**	1,280	1,912	813	743
Charge-offs and adjustments	**(976)**	(1,457)	(1,125)	(839)	(1,040)
End of year	**$ 1,745**	$ 2,288	$ 2,465	$ 1,678	$ 1,704
As a % of related loans and acceptances					
Canada (1)					
Residential mortgage	**.15%**	.15%	.22%	.30%	.30%
Personal	**.75**	1.06	1.14	.91	.97
Business and government	**2.26**	2.36	2.75	1.97	2.24
	.76	.93	1.18	.97	1.07
International	**1.76**	2.34	1.95	1.15	1.28

Total	**.98%**	1.27%	1.36%	1.00%	1.11%
Allowance for credit losses					
Allocated specific	**$ 757**	$ 894	$ 951	$ 747	$ 786
Allocated country risk	**—**	—	31	28	34
Allocated general (3)	**1,169**	1,169	1,185	863	790
Total allocated	**1,926**	2,063	2,167	1,638	1,610
Unallocated	**238**	251	225	337	290
Total	**$ 2,164**	$ 2,314	$ 2,392	$ 1,975	$ 1,900
As a % of loans and acceptances	**1.2%**	1.2%	1.3%	1.1%	1.2%
As a % of loans, acceptances and reverse repurchase agreements	**1.0%**	1.0%	1.0%	1.0%	1.1%
As a % of nonaccrual loans (coverage ratio), excluding LDCs	**118%**	96%	93%	112%	112%
Provision for credit losses					
Allocated specific	**$ 715**	$ 1,065	$ 1,049	$ 571	$ 530
Allocated general (2)	**6**	(22)	205	73	n.a.
Total allocated	**721**	1,043	1,254	644	n.a.
Unallocated (2)	**(6)**	22	(135)	47	n.a.
Total	**$ 715**	$ 1,065	$ 1,119	$ 691	$ 760
Credit derivative gains	**(14)**	(115)	—	—	—
Credit derivative losses	**—**	69	—	—	—
Total provision net of credit derivative gains/losses	**$ 701**	$ 1,019	$ 1,119	$ 691	$ 760
Allocated specific provision as a % of average loans, acceptances and reverse repurchase agreements	**.33%**	.50%	.52%	.31%	.30%
Provision as a % of average loans, acceptances and reverse repurchase agreements	**.33**	.50	.55	.38	.43
Allocated specific provision net of credit derivative gains/losses as a % of average loans, acceptances and reverse repurchase agreements	**.32**	.48	—	—	—
As a % of related average loans and acceptances					
Canada					
Residential mortgage	**.01%**	—%	.01%	—%	.01%
Personal	**.85**	1.00	.94	1.12	.71
Credit card	**2.92**	3.10	2.73	2.87	2.39
Business and government	**.39**	.32	.67	.28	.49
	.38	.39	.50	.39	.35
International	**.47**	1.28	1.08	.18	.31
Total allocated specific provision	**.40%**	.60%	.61%	.36%	.34%
Total provision for credit losses	**.40**	.60	.65	.43	.49
Net charge-offs (excluding LDCs) as a % of average loans and acceptances	**.45%**	.69%	.55%	.42%	.61%
Net charge-offs as a % of average loans and acceptances	**.45%**	.71%	.55%	.42%	.62%

(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 provision and the unallocated provision totalled $230 million in 1999. These were not separated into the allocated general and unallocated components.

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

Risk management

Overview

The mission of the risk management function is to build shareholder value through leadership in the strategic management of risk. Strategic priorities are to:

- Ensure alignment of risk appetite and business strategies
- Attract, develop and retain high-performing risk management professionals
- Enhance communication on risk and risk appetite throughout the organization
- Invest in capabilities to better measure, understand and manage risk
- Strengthen the efficiency, accessibility and responsiveness of key risk processes and practices

Our business activities expose us to the risks outlined in the risk pyramid below. We use the risk pyramid as a tool to identify and assess risk across the organization. Risks are shown within the pyramid according to the level of control and influence that we can exert to mitigate or manage each specific risk type.





Controllable risks

- **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 processes, technology, human performance or external events. The impact of operational risk can be financial loss, loss of reputation, loss of competitive position, poor client service and resulting legal or 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 segment and functional units to identify risks, which are then measured, monitored and managed. In line with our group-wide portfolio management approach, portfolio analysis techniques are employed in an effort to optimize the risk-reward profile and ensure the efficient and appropriate attribution 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 and provide direction as required
- Ensure there are sufficient and appropriate risk management resources across the organization to protect against the risks being taken

Risk management

The middle level of the organizational perspective risk pyramid 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, Ethics and Compliance Committee, Risk Management Committee and other committees responsible for areas such as interest rate risk and trading risk. To address the increasing complexity of products in the marketplace, New Business Committees were established in 2003 in London, New York and Toronto to provide risk oversight of all new business initiatives in RBC Capital Markets.

Key responsibilities of the Chief Risk Officer, Group Risk Management and the various Risk Committees 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 to identify, understand, measure, mitigate and monitor the risks being taken

Economic Capital

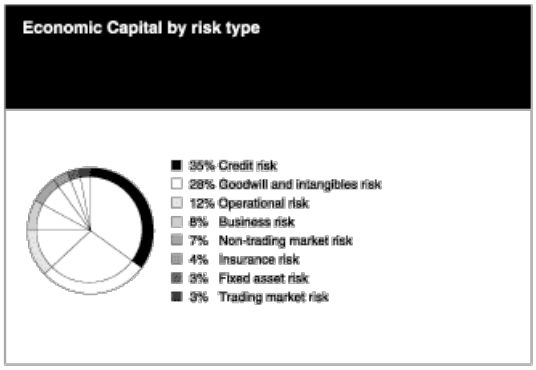
Economic Capital (EC) is an estimate of the amount of common equity required to underpin risks. It is calculated by estimating the level of capital that is necessary to cover risks consistent with our desired solvency standard and AA debt rating. EC analysis is intended to represent the shareholder's perspective and drives the optimization of shareholder returns. Calculation of EC involves a number of assumptions and judgments, and changes to them may result in materially different amounts of EC being computed. Capital attribution methodologies are continually 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 is attributed to our business segments to provide directly comparable performance measurements for each of our business activities and to assist senior management in strategic planning, resource allocation and performance measurement.

EC is calculated for eight distinct risk types. Credit, market, insurance and operational risk are 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 total required economic capital takes into account the diversification benefits between and within risk categories and lines of business. These diversification benefits are passed on to our businesses and are reflected in the EC levels used in their ROE calculations.

The following chart represents the proportionate EC levels by risk type for fiscal 2003. Over the past three years there has been a shift of economic capital from credit risk to goodwill and intangibles risk, which is consistent with our strategies of reducing non-core lending exposures, and our expansion in the U.S.



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

Credit risk

Our approach to credit risk management preserves the independence and integrity of risk assessment while being integrated into the portfolio 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 our strong credit culture.

We manage credit risk directly through key control processes, risk measurements used by management to monitor performance and through the use of certain risk mitigation strategies.

Key control processes

Credit scoring models are used for underwriting and ongoing monitoring of consumer and certain small business credit. Applicant scoring is used for underwriting purposes and utilizes established statistical methods of analyzing applicant characteristics and past performance to determine the probability of the risk for future credit performance. Behavioural scoring is used for ongoing management of booked accounts and utilizes statistical techniques that capture past performance to predict future behaviour of existing accounts. Both applicant and behavioural scores use customer centric scoring models which consider the strength of the entire client relationship, utilizing certain variables, to predict future behaviour.

For commercial and corporate clients, we assign an internal risk rating based on a detailed review of the borrower. 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. The internal risk ratings are assessed and updated on a regular basis.

In addition to control processes for credit granting and ongoing monitoring, we have established risk limits in place to ensure that we do not become over-exposed to any one borrower or family of related borrowers, industry sector or geographic area.

Risk measurements

Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to ensure our senior management is aware of shifts in loan quality and portfolio performance. The three critical components of this reporting framework are a dashboard for consumer and small business lending, and classification reporting and expected loss monitoring on the commercial and corporate lending portfolios.

The dashboard is a monthly reporting mechanism in place for all consumer and small business loan portfolios. The performance of each portfolio is assessed against various risk/reward measures and assigned one of the following ratings — concern, monitor or good. At year-end, portfolios representing approximately 3% of consumer and small business loans outstanding at October 31, 2003, were rated as concern. To monitor any shifts in portfolio quality, further assessment criteria are applied to each portfolio to generate one of the following portfolio quality trend indicators — declining, stable or improving. At year-end, most portfolios reflected a stable or improving portfolio quality trend, including the portfolios classified as concern from a risk-reward perspective.

Classification reporting is an ongoing process in place to ensure that Account and Risk Managers are effective in early problem recognition on commercial and corporate lending. Once any sign of weakness is identified or concern is raised, the exposure is classified as Especially Mentioned, Substandard, Doubtful or Loss. Total classified outstanding loans decreased by $2.2 billion from a year ago to $3.9 billion at October 31, 2003.

In addition, current one-year expected losses on our commercial and corporate loan portfolio provides a good indicator of asset quality trends. Expected loss is compared to long-term or through-the-cycle expected losses to assess where we are in the credit cycle.

Risk mitigation

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

Portfolio diversification remains the cornerstone of our risk mitigation activities, and as a result, 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 resulting from a particular counterparty being unable to fulfill its payment obligations, single-name limits are in place, with the limit set based on the applicable risk rating. 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.

To mitigate risk on portions of our portfolio, we enter into credit derivative contracts. As at October 31, 2003, credit mitigation was in place to cover $.7 billion in corporate credit exposure, down from $1 billion as at October 31, 2002, reflecting overall improvements in asset quality which resulted in a lower need for protection.

Loan sales are also used to manage risk. We seek to identify and sell loans we have made to borrowers whose risk/reward profiles and borrower ratings no longer satisfy our requirements. Loan sales totalled approximately $.5 billion in 2003.

Market risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. The level of market risk to which we are exposed varies depending on market conditions, expectations of future price and market movements and the composition of our trading portfolio. We establish risk management policies and limits for our trading and asset/liability management activities that allow us to monitor and control our 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 we also participate in structured derivative transactions. Market risks associated with trading activities are a result of market-making, positioning and sales and arbitrage activities in the interest rate, foreign exchange, equity, commodities and credit markets. Our trading operation primarily acts as a market maker, 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 proprietary market risk positions within the authorizations granted by the Board of Directors.

The trading book consists of positions that are held for short-term resale, taken on with the intent of benefiting in the short term from actual and/or expected differences between their buying and selling prices or to lock in arbitrage profits.

Interest rate risk

Interest rate risk is the potential adverse impact on our earnings and economic value due to changes in interest rates. Most of our holdings in financial instruments result in exposure to interest rate risk.

Credit spread risk and debt specific risk

Credit spread and debt specific risk are the potential adverse impact on our earnings and economic value due to changes in the creditworthiness and credit rating of issuers of bonds and money market instruments, or the names underlying credit derivatives. We are exposed to credit spread risk and debt specific risk through our positions in bonds, money market instruments and credit derivatives.

Foreign exchange rate risk

Foreign exchange rate risk is the potential adverse impact on our earnings and economic value due to currency rate movements and volatilities. In our proprietary positions, we hold risk in both the spot and forward foreign exchange markets and in the derivatives 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 level of the stock market. We are exposed to equity risk from the buying and selling of equities as a principal in our investment banking activities. Equity risk also results from our trading activities, including the offering of tailored equity derivative products to clients, arbitrage trading and proprietary trading.

Monitoring market risk

A comprehensive risk policy framework governs trading-related risks and activities and provides guidance to trading management, middle office/compliance functions and operation areas. We employ an extensive set of principles, rules, controls and limits, which we believe conform to industry best practice. This market risk management framework is designed to ensure that an appropriate diversification of risks is adopted on a global basis. Group Risk Management (GRM) — Market Risk is a corporate function that is independent of the trading operations and it is responsible for the daily monitoring of global trading risk exposures via risk measures such as VAR, sensitivity analysis and stress testing. GRM uses these risk measures to assess global risk-return trends and to alert senior management of adverse trends or positions. These risk measures are reported on a daily basis to senior management. The senior management of RBC Capital Markets and senior executives within GRM review trends in market risk on a weekly basis. Trends in market risk are reported to the Group Risk Committee and the Conduct Review and Risk Policy Committee on a quarterly basis.

TABLE 19 **Market risk measures — Trading activities (1)**

(C$ millions)	2003 Year-end	2003 High	2003 Average	2003 Low	2002 Year-end	2002 High	2002 Average	2002 Low
Global VAR by major risk category								
Equity	**$ 4**	**$12**	**$ 7**	**$4**	$ 7	$12	$ 8	$6
Foreign exchange and commodity	**2**	**7**	**3**	**1**	2	9	3	1
Interest rate	**8**	**13**	**9**	**6**	11	14	6	2
Global VAR (2)	**$ 8**	**$19**	**$ 13**	**$8**	$ 13	$18	$ 11	$7

(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.

VAR is an industry standard measure of market risk and is a determinant of minimum regulatory capital requirement. Our VAR model uses statistical models, historical market price information and credit migration statistics 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 movement in market rates, prices or issuer ratings. 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 combination of historical simulation of the previous 500 trading days and Monte Carlo event generation for migration and default events to determine VAR for our trading portfolio.

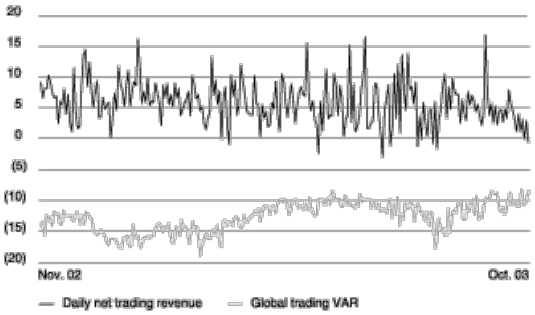
In addition to VAR, extensive sensitivity analysis and stress testing are performed, monitored and reported on a daily basis as a supplementary control on our market risk exposure. Sensitivity analysis is used to measure the impact of small changes in individual risk factors such as interest rates and foreign exchange rates and are designed to isolate and quantify exposure to the underlying risk factors that affect option prices. Stress testing measures the impact of extreme market movements and is intended to alert senior management of the exposure to potential political, economic or other disruptive events.

The year-end, high, average and low VAR by major risk category for our combined trading activities for the years ended October 31, 2003 and 2002 are shown in Table 19 above. 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 global VAR in 2003 was $13 million, compared to $11 million in 2002. The largest contributor to VAR is the interest rate product class. The VAR associated with this product class captures the interest rate risk, credit spread risk and default risk associated with money market, fixed income, and fixed income derivatives trading. Risk in newer products not yet captured within our VAR calculation is measured by other sensitivity and stress scenarios appropriate for the products.

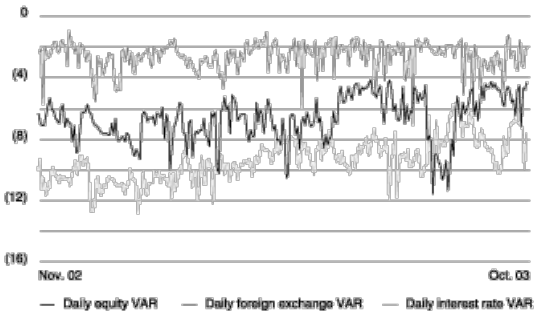
The graph on this page, top right compares the global trading VAR amounts to the relevant daily net trading revenue for the year ended October 31, 2003. During fiscal 2003, we experienced eight days of net trading losses, and net trading losses in any single day did not exceed the VAR estimate for that day. The breadth of our trading activities is designed to diversify market risk to any particular strategy, and to reduce trading revenue volatility.

Back-testing against hypothetical profit and loss is used to monitor the statistical validity of VAR models. Actual one-day changes in market rates and prices as well as actual 10-day changes in issuer ratings are used to calculate hypothetical profit and loss on a given portfolio for a particular date if the end of day portfolio was held constant during the period. Back-testing is performed daily across all trading portfolios. In fiscal 2003, there were no instances of the hypothetical net loss exceeding the VAR.

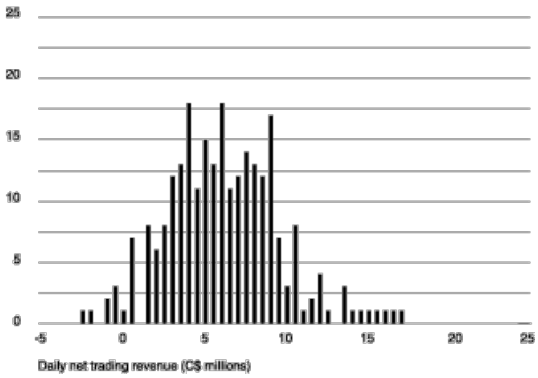
DAILY NET TRADING REVENUE VS GLOBAL TRADING VAR
(C$ millions)



GLOBAL VAR BY MAJOR RISK CATEGORY
(C$ millions)



HISTOGRAM OF DAILY NET TRADING REVENUE
(number of days)



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, and exposures are continually measured, monitored and mitigated. We have developed and implemented a comprehensive liquidity management framework comprising policies, procedures, methodologies and measurements.

For further information on liquidity see the Liquidity management section on page 62.

Insurance risk

The Insurance business contains elements of credit, market and operational risk, and it also subjects us to product design and pricing risk, claims administration risk, underwriting risk and liability risk.

The process of designing and pricing products includes the estimation of many factors including future investment yields, 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, as a result, financial 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. Claims experience risk in relation to estimates of future mortality and morbidity can also be mitigated through reinsurance.

Claims administration risk is the exposure to higher than expected claims due to administrative practices in settling claims. Policies and procedures are in place 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 more senior staff.

Underwriting risk is the risk of 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 or having property and casualty catastrophe reinsurance, mitigates exposure to large claims.

Liability risk is the risk that attributes of a specific type of risk are misunderstood and improperly quantified, resulting in the liabilities established for this type of risk being inadequate. Actuaries review the assumptions used in the calculation of policy benefit liabilities on a quarterly basis to reduce our exposure to this type of risk.

The overall insurance risks assumed are dependent on our ability to reprice the contracts. For property and casualty insurance risks (mainly travel, home & auto) and group life insurance, the price charged for coverage is guaranteed for relatively short periods (up to a year). For most individual life insurance, the price charged for coverage can be guaranteed for periods of several years and there is greater insurance risk as a result.

To measure and report on risk, each business/product line is classified as concern, monitor, or good. This classification is based on a review of solvency ratios, claim ratios, the combined (profitability) ratio and liabilities. At the end of 2003, all business/product lines were classified as monitor or good.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, technology, human performance or from 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 professionals who are proactive in developing and implementing new methodologies for the identification, assessment and management of operational risk.

To monitor and mitigate operational risks in the organization, we have developed and are in the process of implementing the Risk and Control Self-Assessment process and the Loss Event Database, both enterprise-wide initiatives.

Risk and Control Self-Assessment (RCSA)

RCSA is a formal process established to identify, document, assess and manage 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 self-assessment, usually in a cross-functional workshop setting, to determine key risks, mitigating controls, the potential impact should a problem occur, the likelihood of a problem occurring, and the acceptability of the residual exposure. Where residual exposure is deemed unacceptable, the group will identify root causes and 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.

At October 31, 2003, RCSAs had been completed on approximately 30% of the entities deemed to be medium-to-high priority. It is expected that all risk assessments for this group will be completed by mid-2005.

Loss Event Database (LED)

The LED is a centralized database designed to capture information pertaining to operational losses, with more detailed information collected for

losses exceeding $25,000. The losses tracked are mapped to the entities identified in the RCSA process. Information such as the frequency, severity and nature of operational losses is captured. This data capture allows for analysis at the business segment and enterprise level and leads to a better understanding of the root causes of operational losses and improved risk mitigation strategies. Based on data collected to date, we have determined that the most frequent losses relate to process risk where there is a failure in the transaction processes in high-volume environments.

Ongoing developments

While operational risk is not a new risk, increased focus and renewed rigour in its management are evident throughout the industry, be it with respect to capital reform or changing expectations for managing and reporting this risk. The RCSA and LED initiatives outlined above are key to our strategies for effectively managing operational risk, while research and development efforts will continue in the areas of quantification methodologies, scenario analysis and key risk indicators as we strive to stay at the forefront of operational risk management best practices.

Changing regulatory landscape

As a globally active, diversified financial services company, we fall within the purview of multiple regulatory bodies in different jurisdictions, geographic locations and business lines. There is also continued expansion in regulatory interest and expectations with respect to areas such as capital, risk management, corporate governance, reporting and disclosure. Some of the more visible of these are the capital reform efforts of the Basel Committee, the disclosure and certification requirements under the *Sarbanes-Oxley Act of 2002* in the U.S., anti—money laundering requirements, and updated standards for sound business and financial practices from the Canada Deposit Insurance Corporation. Key to addressing this changing regulatory landscape effectively are ongoing assessments of how the requirements of multiple regulators overlap, and an integrated, coordinated approach to evaluating how the practices supporting our sound and prudent management measure up against evolving regulatory requirements. Wherever possible, we base compliance on existing sound and prudent practices, and endeavour to meet multiple regulatory requirements concurrently.

Financial priority: Balance sheet and capital management

Highlights

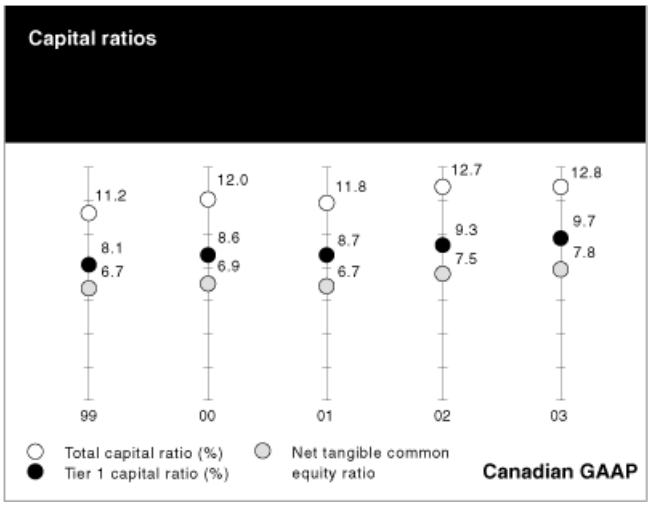
- Consumer loans up 7%
- Deposits up 6%
- Internally generated capital of $1.8 billion
- Capital ratios stronger
- Common share repurchases of $852 million
- $900 million of Innovative Tier 1 capital, Trust Capital Securities — Series 2013 issued
- First Preferred Shares Series J redeemed for $300 million
- US$ First Preferred Shares Series K redeemed for US$250 million

Total assets were $412.6 billion at October 31, 2003, up $30.6 billion or 8% from October 31, 2002.

Securities were up $21.4 billion or 22% from a year ago reflecting an increase in trading account securities of $11.5 billion due to increased trading activity and an increase of $9.9 billion in available for sale securities primarily due to redeployment of funds to higher-yielding investments.

Loans (before allowance for loan losses) were up $1.0 billion or 1%. Consumer loans (residential mortgage, personal and credit card loans) were up $7.9 billion or 7%, with residential mortgages up $6.0 billion or 8% (after $4.1 billion of securitizations during the year), personal loans up $2.0 billion or 6% and credit card balances down $.1 billion or 2% (after $1.0 billion of securitizations during the year). Business and government loans were down, reflecting our deliberate effort to reduce the size of our corporate loan portfolio and a reduction in the demand for credit.

Other assets were up $11.3 billion to $71.5 billion. This reflected a $7.0 billion increase in other — other assets (due to increases in collateral received in connection with securities lending and borrowing activities and the volume of securities sold pending settlement) and a $5.4 billion increase in the fair value of our foreign exchange derivative-related amounts. Other — other assets includes $425 million (US$322 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, as discussed in Note 20 to the financial statements on page 94. This amount is net of a settlement we received in the fourth quarter, valued at approximately US$195 million plus interest, which was in accordance with the terms of a settlement agreement with Enron Corporation, the Enron Creditors' Committee and Rabobank. The settlement received has reduced the amount owing by Rabobank but did not otherwise affect the ongoing litigation with Rabobank. Management expects to recover the amount owing from Rabobank in its entirety, and accordingly a provision for loss has not been recorded.



Deposits were $260.5 billion, up $15.5 billion or 6% from October 31, 2002. Interest-bearing deposits were up $14.1 billion or 6% and non-interest-bearing deposits up $1.4 billion or 5%. Personal deposits were up $4.8 billion, business and government deposits up $10.2 billion and bank deposits were up $.5 billion. Further details on deposits are provided in Note 10 on page 84.

The fair values of loans and deposits differ from their respective book values due to changes in the level of interest rates and changes in credit status. The estimated fair value of loans due from clients exceeded book values by $1.8 billion at October 31, 2003, and $2.2 billion at October 31, 2002. The estimated fair value of deposits owed to clients exceeded book value by $1.3 billion at October 31, 2003, and $1.5 billion at October 31, 2002. The net amount of the fair value excess of loans due from clients and the fair value excess of deposits due to clients was

$498 million at October 31, 2003, as shown in Note 23 on page 97. The estimated fair values of loans and deposits were in excess of their book values largely due to a decline in interest rates.

Other liabilities increased $16.1 billion to $125.9 billion. The growth was largely due to a $5.7 billion increase in derivative-related amounts, a $4.8 billion increase in obligations related to securities sold short, and a $3.9 billion increase in insurance claims and policy benefit liabilities largely due to the acquisition of Business Men's Assurance Company of America by RBC Liberty Insurance in May 2003.

Subordinated debentures (subordinated indebtedness) decreased by $379 million to $6.6 billion.

Non-controlling interest in subsidiaries consists primarily of RBC Capital Trust, a closed-end trust, which has $1.4 billion of transferable trust units (RBC TruCS) outstanding. The RBC TruCS are included in Tier 1 capital under guidelines issued by OSFI.

Shareholders' equity was $18.1 billion at October 31, 2003, down $638 million from a year ago reflecting $634 million of preferred share redemptions. A $1.1 billion increase in retained earnings was offset by a $1.1 billion decline in accumulated other comprehensive income. The decline was primarily due to an $839 million increase in unrealized foreign currency translation losses net of hedging activities. We also recognized in other comprehensive income an additional pension obligation of $197 million, net of related income taxes, primarily due to the fair value of plan assets being less than the accumulated benefit obligation for certain plans this year.

We fund pension plans in compliance with applicable legislative and regulatory requirements, which require funding when there is a deficit on an actuarial funding basis. Different assumptions and methods are prescribed for regulatory funding purposes versus accounting purposes. This year we contributed $737 million to pension plans, fully funding them for regulatory purposes. Note 17 on page 90 describes the funding position for accounting purposes and the sensitivity of key assumptions.

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 to achieve this balance, we consider expected levels of risk-adjusted assets and balance sheet assets, our future investment plans, and the costs and terms of current and potential capital issuances.

We are committed to maintaining strong capital ratios through internal capital generation, the issuance of capital instruments when appropriate, and controlled growth in assets. During 2003, we achieved strong levels of internal capital generation notwithstanding the weak capital markets environment during the first six months of the fiscal year. The weak market environment and planned reductions of corporate loans also contributed to slower growth in risk-adjusted assets, which enabled us to continue repurchasing shares and redeeming some of our outstanding capital instruments, replacing them partly with more cost-effective Innovative Tier 1 capital. Our debt ratings continue to favourably impact our ability to raise capital at competitive prices.

Capital management activity

In 2003, we repurchased 14.5 million common shares, of which 8.6 million shares were repurchased for $502 million under a normal course issuer bid that expired in June 2003; and 5.9 million shares were repurchased for $350 million under a normal course issuer bid that allows for the repurchase of up to 25 million common shares, representing approximately 3.8% of outstanding common shares, between June 24, 2003, and June 23, 2004. In total, during 2003, we spent $852 million to repurchase our common shares and issued 5.3 million common shares for $183 million in connection with the exercise of employee stock options.

On July 23, 2003, RBC Capital Trust II, an SPE and open-end trust we sponsor, issued $900 million of Innovative Tier 1 capital, Trust Capital Securities — Series 2013 (RBC TruCS — Series 2013).

In May 2003, we redeemed $300 million of First Preferred Shares Series J, and US$250 million of First Preferred Shares Series K, both of which were included in our Tier 1 capital.

In September 2003, we redeemed $100 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. 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 20 below.

TABLE 20 **Capital ratios** (1)

(C$ millions, except percentage amounts)	2003	2002	2001
Tier 1 capital			
Common equity	**$ 17,543**	$ 17,238	$ 16,141
Non-cumulative preferred shares	**832**	1,545	2,024
Non-controlling interest in subsidiaries			
RBC Capital Trust	**1,400**	1,400	1,400
RBC Capital Trust II	**900**	**—**	**—**
Other	**27**	29	28
Goodwill	**(4,443)**	(4,832)	(4,742)
	16,259	15,380	14,851
Tier 2 capital			
Permanent subordinated debentures	**396**	467	477
Other subordinated debentures (2), (3)	**5,847**	6,147	5,935
General allowance (4)	**1,407**	1,420	1,410
	7,650	8,034	7,822
Investment in insurance subsidiaries	**(2,143)**	(2,014)	(2,107)
Other substantial investments	**(371)**	(368)	(387)
First loss facility	**(21)**	(20)	(8)
Total capital	**$ 21,374**	$ 21,012	$ 20,171
Risk-adjusted assets	**$166,911**	$165,559	$171,047

Capital ratios			
Common equity to risk-adjusted assets	**10.5%**	10.4%	9.4%
Tier 1 capital to risk-adjusted assets	**9.7%**	9.3%	8.7%
Total capital to risk-adjusted assets	**12.8%**	12.7%	11.8%
Assets-to-capital multiple (5)	**18.2**	17.3	17.2
U.S. basis (6)			
Tier 1 capital to risk-adjusted assets	**8.7%**	8.5%	8.1%
Total capital to risk-adjusted assets	**12.0%**	11.9%	11.2%
Equity to assets (7)	**4.9%**	5.3%	5.1%

(1) Using guidelines issued by OSFI 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) On November 3, 2003,we issued $1 billion of subordinated debentures, which increased Total capital by the same amount.

(4) The general allowance for credit losses may be included in Tier 2 capital up to a maximum of .875% (2001 – 2002 – .875%) of risk-adjusted assets.

(5) Total assets and specified off-balance sheet financial instruments, as prescribed by OSFI, 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 (including netted derivatives). Average total shareholders' equity is calculated as the average of month-end balances for the period.

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 21 below, are determined by applying OSFI prescribed risk weights to balance sheet assets and off-balance sheet financial instruments according to the deemed credit risk of the counterparty. Risk-adjusted assets also include an amount for the market risk exposure associated with our trading portfolio.

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, 2003, our Tier 1 and Total capital ratios were 9.7% and 12.8%, respectively, compared to 9.3% and 12.7% at October 31, 2002. Throughout 2003, we maintained capital ratios that exceeded our medium-term goals of 8.0–8.5% for the Tier 1 capital ratio and 11–12% for the Total capital ratio. Our capital ratios, 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 shown in Table 20 on page 59.

In addition to the Tier 1 and Total capital ratios, Canadian banks need to operate within a leverage constraint, and ensure that their assets-to-capital multiple does not exceed the level prescribed by regulators. The assets-to-capital multiple shown in Table 20 on page 59 is calculated by dividing gross adjusted assets based on Canadian GAAP by Total capital. Gross adjusted assets represent the bank's total assets including specified off-balance sheet items and are net of prescribed deductions.

Our policy is to remain well capitalized so as to provide a cushion for the risks we are exposed to in the conduct of our business.

Pending developments

Changes to the Basel II agreement for assessing capital adequacy are currently in the process of being finalized. The implementation is not expected prior to fiscal 2007.

Several changes in accounting principles have either been introduced or are being proposed in the U.S. and in Canada in the areas of consolidation of Variable Interest Entities (as described in Note 1 to the consolidated financial statements on page 76, and in Note 13 on page 86) and classification of certain financial instruments as either equity or liabilities. These changes could significantly affect the reporting of assets and capital instruments. The lack of definitive guidance by accounting boards and uncertainties regarding the response of regulators to the accounting changes have increased capital management challenges. We continue to closely monitor changes in the accounting framework and their potential impact on our capitalization levels through ongoing dialogue with our external auditors, other financial institutions, the Canadian Bankers Association and OSFI.

TABLE 21 **Risk-adjusted assets** (1)

(C$ millions, except percentage amounts)	Balance sheet amount	Weighted average of risk weights (2)	Risk-adjusted balance 2003	Risk-adjusted balance 2002
Balance sheet assets				
Cash resources	$ 17,554	12%	**$ 2,026**	$ 2,054
Securities				
Issued or guaranteed by Canadian or other OECD governments	37,692	0%	**28**	36
Other	79,698	6%	**4,557**	4,929
Residential mortgages (3)				
Insured	36,308	1%	**377**	379
Conventional	42,472	52%	**21,951**	20,168
Other loans and acceptances (3)				
Issued or guaranteed by Canadian or other OECD governments	20,141	19%	**3,778**	3,098
Other	113,705	72%	**82,169**	89,836
Other assets	55,463	13%	**6,996**	5,692
	$ 403,033		**$121,882**	$126,192

	Contract amount	Credit conversion factor	Credit equivalent amount			
Off-balance sheet financial instruments						
Credit instruments						
Guarantees and standby letters of credit						
Financial	$ 14,504	100%	$14,504	91%	**$ 13,201**	$ 8,560
Non-financial	3,038	50%	1,519	100%	**1,519**	1,609
Documentary and commercial letters of credit	2,014	20%	403	99%	**399**	150
Securities lending	17,520	100%	17,520	6%	**1,087**	646
Commitments to extend credit						
Original term to maturity of 1 year or less	40,432	0%	—		**—**	—
Original term to maturity of more than 1 year	28,182	50%	14,091	95%	**13,357**	15,638

Uncommitted amounts	59,801	0%	—	—	**—**	—
Note issuance/revolving underwriting facilities	24	50%	12	100%	**12**	12
	$ 165,515		$48,049		**$ 29,575**	$ 26,615
Derivatives	2,137,758		26,652	24%	**6,320**	6,469
Total off-balance sheet financial instruments	$2,303,273		$74,701		**$ 35,895**	$ 33,084
Total specific and general market risk					**9,134**	6,283
Total risk-adjusted assets					**$166,911**	$165,559

(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.

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 that 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 63 to 65 of this section.

Non-trading portfolio

Traditional non-trading 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 assigned interest rate risk limits. We endeavour to adopt the industry's 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 contained. 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. The economic value of equity is equal to the present value of assets less the present value of liabilities, plus or minus the market value of off-balance sheet instruments.

Interest rate funds transfer pricing

We use a funds transfer pricing mechanism to centralize interest rate risk within Corporate Treasury and to ensure an equitable allocation of interest income to the various business units. Funds transfer pricing at the transactional level ensures that interest rate risk is appropriately transferred to Corporate Treasury for management. The funds transfer pricing rates are market-based and are aligned with interest rate 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 investigate best practices in instrument valuation, econometric modeling and new hedging techniques on an ongoing basis. Our investigations range from the evaluation of traditional asset/liability management processes to pro forma application of recent developments in quantitative methods to our processes.

We also 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 measure our risk position on a daily, weekly or monthly basis with the frequency employed commensurate with the size and complexity of the portfolio. Measurement of risk is based on client rates as well as funds transfer pricing rates. We continue to make investments in new technology to facilitate measurement and timely management of our interest rate risk position. In 2003, Key Rate Analysis was introduced as the primary measure of our risk position. Key Rate Analysis provides us with an assessment of the sensitivity of the exposure of our economic value of equity to instantaneous changes in individual points on the yield curve.

We supplement our assessment by measuring interest rate risk for a range of dynamic and static market scenarios. 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 assumed changes in interest rate levels and changes in the shape of the yield curve. Static scenarios supplement dynamic scenarios and are also employed for assessing both value of equity risk and net interest income risk.

Interest rate risk management

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

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 primarily from embedded options in our products that allow clients to modify the maturities of their loans or deposits. Examples are a client prepaying 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 the risks are managed by either purchasing options or by a dynamic hedging strategy.

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

Table 22 below shows the potential impacts of 100 and 200 basis point increases and decreases in interest rates on economic value of equity and net interest income of our non-trading portfolio. These measures are as of October 31, 2003, 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 notionally invested evenly over a five-year horizon. As a result of this decision, our interest rate risk profile has slightly faster repricing 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 22 **Market risk measures — Non-trading activities** (1)

	2003		2002	
(C$ millions)	**Economic value of equity risk**	**Net interest income risk**	**Economic value of equity risk**	**Net interest income risk**
100bp increase	**$ (423)**	**$ 115**	$ (309)	$ 104
100bp decrease	**261**	**(126)**	145	(151)
200bp increase	**$ (869)**	**$ 207**	$ (662)	$ 190
200bp decrease	**545**	**(294)**	345	(327)

(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 customer 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 discussion that follows reflects our consolidated liquidity management practices and processes.

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 Committee and the Asset/Liability Committee share management oversight responsibility for liquidity management and liquidity policies and receive regular reports detailing compliance with limits and guidelines. Committees of the Board of Directors approve our liquidity management framework and significant related policies, and the Board of Directors 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.

Since most of the funding of our subsidiaries is provided by the parent organization, managing our liquidity position on a consolidated basis is the most pragmatic and relevant approach. When managing the flow of liquidity between different legal entities within the consolidated group, we take into account the tax and regulatory considerations associated with each jurisdiction. While such tax and regulatory considerations add a degree of complexity to internal fund flows, given intra-group funding arrangements, our consolidated liquidity management approach already takes into account the maximum funding demands associated with intra-group requirements. Subsidiaries responsible for managing their own liquidity do so in compliance with policies and practices established by Corporate Treasury and with 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 customers and future market conditions. We monitor industry practices and regulatory developments and, as appropriate, upgrade our liquidity management framework to reflect relevant developments. We consider our liquidity profile to be sound and there are no known trends, demands, commitments, events or uncertainties that are presently viewed as likely to materially change our current liquidity position.

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 analysis of our balance sheet.

We use 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 to assess our ability to continue as a going concern during a prolonged liquidity event, such as an unexpected withdrawal of short-term funding. In the context of a sustainable business model, the cash capital methodology allows us to measure and monitor the relationship between illiquid assets and core funding. This reconstruction of our balance sheet enables us to more accurately estimate our exposure to, and make appropriate contingency plans for, a protracted loss of unsecured funding as well as 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 fund 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, test 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. Based on our scenario analyses, our holdings of segregated liquid assets are considered to be sufficient to meet all on- and off-balance sheet obligations if access to funding is temporarily impaired. In addition, we maintain a separate portfolio of eligible assets to support our participation in Canadian payment and settlement systems. All pledging activities are subject to review or approval by the Asset/Liability Committee and are managed and monitored against defined limits. Assets that are encumbered are not accorded any liquidity value in our tactical and contingent liquidity calculations.

Liquid assets and assets purchased under reverse repurchase agreements (before pledging as detailed below) totalled $178 billion or 43% of total assets at October 31, 2003, as compared to $155 billion or 41% at October 31, 2002. Liquid assets are primarily diversified and highly rated

marketable securities. As at October 31, 2003, $14 billion of assets had been pledged as collateral, up from $10 billion at October 31, 2002. We have another $46 billion in obligations related to assets sold under repurchase agreements and securities sold short at October 31, 2003, compared to $39 billion at October 31, 2002. For further details, see Note 20 to the consolidated financial statements on page 93.

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 an acceptable credit rating, 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 our financial strength. A series of downgrades could have an adverse impact on our funding capacity and on the results of our operations.

Deposit profile

The composition of our global deposit liabilities is summarized in Note 10 on page 84. 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. Taken together, these depositors represent a consistently reliable component of core funding as they typically have extensive banking relationships and are less responsive to market developments than transactional lenders and investors. Behavioural characteristics, rather than contractual or repricing terms, are used to categorize core deposits. We also 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.

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 2003, we continued to expand our long-term funding base by issuing, either directly or through our subsidiaries, $5.7 billion of senior deposit notes in various currencies and markets. We also established a U.S. shelf registration, to enable us to more conveniently raise senior and subordinated indebtedness in the U.S. public market. Total long-term funding outstanding on October 31, 2003, was $14.2 billion, compared to $13.2 billion on October 31, 2002.

We use asset securitization programs as an alternative source of funding and for liquidity and asset/liability management purposes. During 2003, $1.6 billion of new financing was obtained through the securitization and sale of $1.0 billion of credit card receivables funded by medium-term notes and $610 million of government guaranteed residential mortgages. In addition, we sold $131 million of commercial mortgages to a third-party securitization special purpose vehicle. As of October 31, 2003, $2.7 billion of our credit card receivables were financed through notes issued by a securitization special purpose entity. Our total outstanding mortgage-backed securities (MBS) sold at October 31, 2003, was $2.9 billion (see Note 7 on pages 82 and 83, and off-balance sheet arrangements below for more details).

Contractual obligations

In the normal course of business, we enter into contracts that give rise to commitments of future minimum payments. Depending on the nature of these commitments, the obligation may be recorded on- or off-balance sheet. Table 23 below provides a summary of our future contractual funding commitments.

TABLE 23 **Contractual obligations**

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Unsecured long-term funding	$ 3,016	$ 5,510	$ 5,573	$ 145	$14,244
Subordinated debentures	—	—	—	6,581	6,581
Obligations under capital leases	358	628	480	681	2,147
Obligations under operating leases	30	37	4	—	71
Purchase obligations	25	11	—	—	36
Other long-term debt obligations	—	—	—	900	900
Total	$ 3,429	$ 6,186	$ 6,057	$ 8,307	$23,979

Off-balance sheet arrangements

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, represent an ongoing part of our business and are generally undertaken for risk management, capital management and/or funding management purposes. Off-balance sheet activities we undertake include derivative financial instruments, transactions with special purpose entities and issuance of guarantees. We do not reasonably expect any presently known trend or uncertainty to affect our ability to continue using these arrangements. Each of these types of arrangements, including their nature, business purpose, importance and significant financial impact, as applicable, is discussed below.

Derivative financial instruments

Derivatives are primarily used in 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. We also use derivatives to manage our exposures to interest, currency and other market risks. 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 pages 54 and 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.

The total notional amount of our derivatives amounted to $2,141 billion at October 31, 2003, compared to $2,086 billion at October 31, 2002. The fair value of our trading and non-trading derivative assets totalled $35.2 billion and $1.7 billion compared to $30.1 billion and $1.6 billion at October 31, 2002, respectively, while the fair value of our trading and non-trading derivative liabilities totalled $37.6 billion and $1.1 billion compared to $32.0 billion and $1.0 billion at October 31, 2002, respectively. Changes in the fair value of our derivatives are recorded in non-interest income except in the case of cash flow hedges and hedges of net foreign currency investments in subsidiaries.

Notes 1 and 21 on pages 73 to 74, and 95 to 97, respectively, provide more detail on our accounting for, and types of, derivatives.

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 certain loans. We also act as an intermediary or agent for clients who want to use SPEs to securitize their own financial assets. We provide SPE repackaging services to clients who seek access to financial assets in a form different than what is conventionally available.

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, usually have no employees and may be Variable Interest Entities (VIEs) as defined by FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46).

We provide services to, and/or may have variable interests in, SPEs through a number of different key arrangements as outlined below.

Variable interests represent contractual, ownership or other pecuniary interests in an unconsolidated SPE that will absorb a portion of that SPE's expected losses if they occur, or receive portions of the SPE's expected residual returns if they occur.

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.

Securitization of our financial assets

Credit card receivables

We securitize a portion 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 purposes of this activity are to diversify our funding sources 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 securitization of our credit card receivables is a sale from a legal perspective and qualifies for sale treatment from an accounting perspective. At the time of sale these receivables are removed from our balance sheet resulting in a gain or loss reported in non-interest income.

This SPE meets the criteria for a Qualifying SPE (QSPE) pursuant to FASB Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140) 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 for which we receive benefits equivalent to market-based compensation for such services. 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 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 upfront expenses. These loans rank subordinate to all notes issued by the QSPE.

At October 31, 2003, total credit card receivables securitized and held off-balance sheet amounted to $2.7 billion, compared to $1.7 billion at October 31, 2002. The carrying value of our retained interests in securitized credit card receivables at October 31, 2003, was $19.7 million compared to $15.1 million in 2002, and amounts receivable under subordinated loan agreements were $8.7 million compared to $5.2 million in 2002.

Residential mortgage loans

We routinely securitize residential mortgage loans through the creation of MBS and sell a portion of these MBS to an independent SPE. Due to the high quality of the residential mortgages backing the MBS, the securitization and subsequent sale provide a cost-effective source of liquidity and help diversify our funding sources. We retain interests in the excess spread on the sold MBS and continue to service the mortgages underlying these MBS for which we receive benefits, equivalent to market-based compensation.

At October 31, 2003, total residential mortgage loans securitized and held off-balance sheet amounted to $2.9 billion, compared to $2.4 billion at October 31, 2002. The carrying value of our retained interests in securitized residential mortgage loans at October 31, 2003, was $95.4 million compared to $94.6 million in 2002.

Further details about the securitization of our financial assets during the year are shown in Note 7 on pages 82 to 83.

Capital Trusts

During the year we issued a $900 million senior deposit note to an RBC sponsored SPE, RBC Capital Trust II. The SPE was funded by trust securities, comprising Trust Capital Securities — Series 2013 (TruCS) of $900 million, and Special Trust Securities (STS) of $1 million which we retained. The purpose of issuing a senior deposit note, through such an SPE was to raise Innovative Tier 1 regulatory capital in a cost-effective manner.

Under current U.S. GAAP, we are not the primary beneficiary of this SPE and are therefore precluded from consolidating the assets and liabilities of this SPE. For further details on our capital trust activity, including RBC Capital Trust, which we do consolidate pursuant to current GAAP, and the terms of the TruCS issued and outstanding, refer to Note 13 on page 86.

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) totaling $26.8 billion as at October 31, 2003, and $22.2 billion as at October 31, 2002. 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 $22.5 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 favourable 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 finance the 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. While we do not maintain any ownership or retained interests, we do have variable interests in these multi-seller SPEs. We provide or retain certain services such as transaction structuring and administration as specified by the multi-seller SPE program documents and based on rating agency criteria for which we receive fees. In addition, we provide backstop liquidity facilities and partial credit enhancement to the multi-seller SPEs. We have no rights to, or control of, the assets owned by the multi-seller SPE.

Fee revenue for such services, which is reported as non-interest income, amounted to $34.2 million during the year compared to $32.2 million during 2002.

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

Asset class

(C$ millions)	2003	2002
Credit cards	**$ 6,248**	$ 4,671
Auto loans and leases	**3,681**	3,615
Equipment receivables	**2,566**	2,509
Trade receivables	**3,680**	2,479
Residential mortgages	**1,138**	2,004
Other loans	**1,159**	1,275
Dealer floor plan receivables	**1,269**	1,208
Consumer loans	**1,004**	1,196
Asset-backed securities	**952**	926
Other	**754**	706
	$22,451	$20,589

The commercial paper issued by each multi-seller SPE is in the multi-seller 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 except through our participation in liquidity and/or credit enhancement facilities, 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 asset and liability balances is mostly related to the discount or interest costs attributable to the commercial paper. As of October 31, 2003, the total face amount of commercial paper issued by the multi-seller SPEs equaled $22,494 million, generating $22,451 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 enhancement facilities, which are included in our discussion on Guarantees below, are shown in the following table:

Liquidity and credit facilities

	2003		2002	
(C$ millions)	**Committed (1)**	**Outstanding**	**Committed (1)**	**Outstanding**
Liquidity facilities	**$ 25,727**	**$ —**	$ 22,593	$ —
Credit facilities	**6,791**	**—**	7,211	—

(1) Our maximum exposure to loss under these facilities is $25.7 billion for 2003 and $22.6 billion for 2002.

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, which generally transform credit derivatives into cash instruments, to distribute credit risk and to create customized credit products, to meet the needs of investors with specific requirements. As part of this process, we may acquire variable interests, by entering into trading 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 the investors. In this role as derivative counterparty to the SPE, we also assume the associated counterparty credit risk of the SPE. In order to enter into these transactions, we establish an internal risk rating for 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 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.

As with all our trading derivatives, these derivative variable interests are carried at fair value in derivative-related assets and liabilities.

Asset management

We act as collateral manager for 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 predetermined market-based fee, which may constitute a variable interest, based on a percentage of assets held by the SPE.

The notional amount of the CDOs we managed at the end of fiscal 2003 was US$.8 billion (2002 — US$1.6 billion). Although we have a nominal investment 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 third parties.

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.

For other types of off-balance sheet arrangements we enter into through VIEs, please refer to Note 1 on page 76.

Guarantees

We issue guarantee products, as defined by FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), to our clients to help them meet their financing needs in return for fees recorded in non-interest income. Our significant types of guarantee products are backstop liquidity facilities, financial standby letters of credit, credit enhancements, stable value products, performance guarantees and certain indemnification agreements.

Our maximum potential exposure in relation to these items at October 31, 2003, amounted to $61 billion. The maximum potential exposure represents the maximum risk of loss if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

Note 20 on pages 93 and 94 provides detailed information regarding the nature and maximum potential exposure for the types of guarantee products mentioned above.

In addition to guarantees, we also provide commercial commitments to our clients to help them meet their financing needs. On behalf of our clients we 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 and letters of credit. We have uncommitted amounts, but not obligations to extend credit. Table 24 below provides a detailed summary of our off-balance sheet commercial commitments.

TABLE 24 **Commercial commitments** (1)

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Documentary and commercial letters of credit	$ 1,509	$ 505	$ —	$ —	$ 2,014
Commitments to extend credit	40,278	19,123	5,212	4,001	68,614
Uncommitted amounts	59,801	—	—	—	59,801
Total	$ 101,588	$ 19,628	$ 5,212	$ 4,001	$130,429

(1) Based on remaining term to maturity.

2002 compared to 2001

The following discussion and analysis provides a comparison of our results of operations for the years ended October 31, 2002, and October 31, 2001. This discussion should be read in conjunction with the consolidated financial statements and related Notes on pages 67 to 98.

Business segment results

Net income from RBC Banking increased 32% to $1,546 million in 2002 from $1,174 million in 2001, reflecting the acquisition of Centura Banks on June 5, 2001, and a lower provision for credit losses. ROE increased from 16.8% to 19.2% due to the higher earnings.

Net income from RBC Insurance was up 10% to $190 million in 2002. Earnings in 2001 were adversely affected by claims resulting from the events of September 11, 2001. ROE increased from 20.0% to 25.7% due to higher earnings and lower common equity attributed to this segment.

Net income from RBC Investments was down 32% from 2001 to $346 million primarily due to the gain on sale of RT Capital Management's institutional money management business in 2001. ROE declined from 27.0% to 11.1% due to lower earnings and higher common equity attributed to this segment.

Net income from RBC Capital Markets increased by 26% to $439 million, as expenses fell far more than revenues. ROE was 10.5%, up from 9.6% in 2001 due to higher earnings.

Net income from RBC Global Services was down 35% to $173 million due to higher loan losses pertaining to Argentine loans, and lower net interest income and foreign exchange revenues. ROE declined from 49.3% to 28.7%, due to lower earnings and higher common equity attributed to this segment.

The Other segment's net income improved to $204 million from $(35) million in 2001. ROE increased from (5.3)% to 25.0% due to higher earnings.

Net interest income

Net interest income increased 10% to $6.9 billion in 2002 from $6.3 billion in 2001, largely due to increased net interest income associated with U.S. acquisitions.

Non-interest income

Non-interest income increased 6% to $10.1 billion in 2002 and accounted for 59% of total revenues.

Non-interest expense

Non-interest expense increased 6% to $10.2 billion, largely due to higher human resources costs, reflecting an increase in salaries expense and benefits expense.

Taxes

Income taxes were $1.4 billion in 2002, unchanged from 2001, while the effective income tax rate was 32.0% compared to 34.7% in 2001.

Provision for credit losses

The provision for credit losses decreased 5% to $1,065 million in 2002 from $1,119 million in 2001. The total allowance for loan losses was $2.2 billion, or 1.2% of total loans and acceptances, down from $2.3 billion or 1.3% in 2001.

Quarterly financial information

Selected financial information for the eight most recently completed quarters is shown on page 104.

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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 pursuant to Subsection 308 of the *Bank Act* (Canada), which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada, the financial statements are to be prepared in accordance with Canadian 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* (Canada), 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, 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 25, 2003

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, 2003, and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. 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 audit.

We conducted our audit 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, 2003, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

We also reported separately on November 25, 2003, 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, 2003, consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles.

The consolidated balance sheet as at October 31, 2002, and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the two-year period ended October 31, 2002, prepared in accordance with accounting principles generally accepted in the United States of America, were audited by Deloitte & Touche LLP and PricewaterhouseCoopers LLP who expressed an opinion without reservation on those statements in their report dated November 19, 2002.

Deloitte & Touche LLP
Chartered Accountants
Toronto, November 25, 2003

Consolidated balance sheet

As at October 31 (C$ millions)	2003	2002
Assets		
Cash resources		
Cash and due from banks	**$ 2,887**	$ 2,534
Interest-bearing deposits with banks	**14,633**	18,759
	17,520	21,293
Securities		
Trading account (pledged — $13,145 and $6,558)	**81,014**	69,457
Available for sale	**35,783**	25,896
	116,797	95,353
Assets purchased under reverse repurchase agreements	**36,289**	35,831
Loans		
Residential mortgage	**78,819**	72,842
Personal	**34,003**	31,956
Credit card	**4,816**	4,914
Business and government	**54,909**	61,811
	172,547	171,523
Allowance for loan losses	**(2,055)**	(2,203)
	170,492	169,320
Other		
Customers' liability under acceptances	**5,943**	8,051
Derivative-related amounts	**36,640**	31,250
Premises and equipment	**1,655**	1,639
Goodwill	**4,633**	5,040
Other intangibles	**580**	665
Reinsurance recoverables	**3,321**	1,946
Separate account assets	**224**	68
Other assets	**18,497**	11,544
	71,493	60,203
	$412,591	$382,000
Liabilities and shareholders' equity		
Deposits		
Canada		
Non-interest-bearing	**$ 24,388**	$ 23,222
Interest-bearing	**130,135**	119,737
International		
Non-interest-bearing	**3,183**	2,969
Interest-bearing	**102,812**	99,112
	260,518	245,040
Other		
Acceptances	**5,943**	8,051
Obligations related to securities sold short	**22,743**	17,990
Obligations related to assets sold under repurchase agreements	**23,735**	21,109
Derivative-related amounts	**38,427**	32,737
Insurance claims and policy benefit liabilities	**8,630**	4,747
Separate account liabilities	**224**	68
Other liabilities	**26,199**	25,074
	125,901	109,776
Subordinated debentures	**6,581**	6,960

Non-controlling interest in subsidiaries	**1,474**	1,469
Shareholders' equity		
Capital stock		
Preferred	**813**	1,515
Common (shares issued and outstanding — 656,021,122 and 665,257,068)	**6,999**	6,963
Additional paid-in capital	**88**	76
Retained earnings	**11,591**	10,473
Accumulated other comprehensive income(loss)	**(1,374)**	(272)
	18,117	18,755
	$412,591	$382,000

Gordon M. Nixon
President & Chief Executive Officer

Robert B. Peterson
Director

Consolidated statement of income

For the year ended October 31 (C$ millions)	2003	2002	2001
Interest income			
Loans	**$ 10,150**	$ 10,463	$ 12,032
Trading account securities	**1,908**	1,945	2,143
Available for sale securities	**832**	907	932
Assets purchased under reverse repurchase agreements	**787**	651	1,163
Deposits with banks	**374**	482	831
	14,051	14,448	17,101
Interest expense			
Deposits	**5,467**	5,709	8,712
Other liabilities	**1,560**	1,405	1,688
Subordinated debentures	**376**	406	410
	7,403	7,520	10,810
Net interest income	**6,648**	6,928	6,291
Non-interest income			
Insurance premiums, investment and fee income	**2,045**	1,910	1,695
Trading revenues	**2,009**	1,766	1,820
Investment management and custodial fees	**1,143**	1,177	1,094
Securities brokerage commissions	**1,108**	1,223	1,045
Deposit and payment service charges	**1,078**	1,041	887
Mutual fund revenues	**673**	723	692
Underwriting and other advisory fees	**671**	643	478
Card service revenues	**303**	285	290
Foreign exchange revenues, other than trading	**279**	274	291
Credit fees	**227**	223	237
Mortgage banking revenues	**180**	240	206
Securitization revenues	**165**	172	125
Gain (loss)on sale of available for sale securities	**19**	(112)	(130)
Gain from divestitures	**—**	—	445
Other	**399**	567	339
	10,299	10,132	9,514
Total revenues	**16,947**	17,060	15,805
Provision for credit losses	**715**	1,065	1,119
Insurance policyholder benefits, claims and acquisition expense	**1,404**	1,330	1,153
Non-interest expense			
Human resources	**6,397**	6,263	5,696
Occupancy	**767**	788	716
Equipment	**766**	752	713
Communications	**744**	790	679
Professional fees	**466**	419	411
Outsourced item processing	**292**	306	303
Amortization of goodwill	**—**	—	252
Amortization of other intangibles	**71**	72	36
Other	**733**	854	835
	10,236	10,244	9,641
Net income before income taxes	**4,592**	4,421	3,892
Income taxes	**1,443**	1,415	1,350
Net income before non-controlling interest	**3,149**	3,006	2,542
Non-controlling interest in net income of subsidiaries	**113**	108	107
Net income	**$ 3,036**	$ 2,898	$ 2,435
Preferred share dividends	**68**	98	135

Net income available to common shareholders	**$ 2,968**	$ 2,800	$ 2,300
Average number of common shares (in thousands)	**662,080**	672,571	641,516
Earnings per share (in dollars)	**$ 4.48**	$ 4.16	$ 3.58
Average number of diluted common shares (in thousands)	**669,625**	679,153	647,216
Diluted earnings per share (in dollars)	**$ 4.43**	$ 4.12	$ 3.55
Dividends per share (in dollars)	**$ 1.72**	$ 1.52	$ 1.38

Consolidated statement of changes in shareholders' equity

For the year ended October 31 (C$ millions)	2003	2002	2001
Preferred shares			
Balance at beginning of year	**$ 1,515**	$ 1,990	$ 2,001
Issued	**—**	—	250
Redeemed for cancellation	**(634)**	(464)	(295)
Issuance costs, net of related income taxes	**—**	—	(3)
Translation adjustment on shares denominated in foreign currency	**(68)**	(11)	37
Balance at end of year	**813**	1,515	1,990
Common shares			
Balance at beginning of year	**6,963**	6,926	3,074
Issued	**190**	190	3,976
Issuance costs, net of related income taxes	**—**	(1)	(12)
Purchased for cancellation	**(154)**	(152)	(112)
Balance at end of year	**6,999**	6,963	6,926
Additional paid-in capital			
Balance at beginning of year	**76**	33	—
Renounced stock appreciation rights, net of related income taxes	**5**	29	—
Stock options granted	**7**	14	33
Balance at end of year	**88**	76	33
Retained earnings			
Balance at beginning of year	**10,473**	9,311	8,314
Net income	**3,036**	2,898	2,435
Preferred share dividends	**(68)**	(98)	(135)
Common share dividends	**(1,137)**	(1,022)	(897)
Premium paid on common shares purchased for cancellation	**(698)**	(612)	(397)
Issuance costs, net of related income taxes	**(15)**	(4)	(9)
Balance at end of year	**11,591**	10,473	9,311
Accumulated other comprehensive income (loss), net of related income taxes			
Unrealized gains and losses on available for sale securities	**113**	202	190
Unrealized foreign currency translation gains and losses, net of hedging activities	**(893)**	(54)	(38)
Gains and losses on derivatives designated as cash flow hedges	**(104)**	(127)	(190)
Additional pension obligation	**(490)**	(293)	(17)
Balance at end of year	**(1,374)**	(272)	(55)
Shareholders' equity at end of year	**$18,117**	$18,755	$18,205
Comprehensive income, net of related income taxes			
Net income	**$ 3,036**	$ 2,898	$ 2,435
Other comprehensive income			
Change in unrealized gains and losses on available for sale securities	**(89)**	12	246
Change in unrealized foreign currency translation gains and losses	**(2,988)**	(59)	473
Impact of hedging unrealized foreign currency translation gains and losses	**2,149**	43	(475)
Cumulative effect of initial adoption of FAS 133	**—**	—	60
Change in gains and losses on derivatives designated as cash flow hedges	**(57)**	(50)	(250)
Reclassification to earnings of gains and losses on cash flow hedges	**80**	113	—
Additional pension obligation	**(197)**	(276)	(17)
Total comprehensive income	**$ 1,934**	$ 2,681	$ 2,472

Consolidated statement of cash flows

For the year ended October 31 (C$ millions)	2003	2002	2001
Cash flows from operating activities			
Net income	**$ 3,036**	$ 2,898	$ 2,435
Adjustments to determine net cash provided by (used in) operating activities			
Provision for credit losses	**715**	1,065	1,119
Depreciation	**380**	388	387
Restructuring	**—**	—	91
Amortization of goodwill and other intangibles	**71**	72	288
Gain on sale of premises and equipment	**(18)**	(35)	(42)
Gain on divestitures	**—**	—	(445)
Gain on loan securitizations	**(34)**	(54)	(29)
Loss on investments in associated corporations	**29**	—	—
(Gain) loss on sale of available for sale securities	**(19)**	112	130
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	**1,498**	866	1,198
Net change in accrued interest receivable and payable	**123**	(166)	(375)
Current income taxes	**672**	419	(460)
Deferred income taxes	**120**	45	139
Derivative-related assets	**(5,390)**	(2,608)	(9,299)
Derivative-related liabilities	**5,690**	3,289	10,872
Trading account securities	**(11,556)**	(11,044)	(8,707)
Obligations related to securities sold short	**4,753**	1,953	3,009
Other	**(6,749)**	744	(6,118)
Net cash used in operating activities	**(6,679)**	(2,056)	(5,807)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	**4,126**	(3,035)	(116)
Change in loans, net of loan securitizations	**(5,255)**	(3,360)	(2,750)
Proceeds from loan securitizations	**1,742**	1,691	1,720
Proceeds from sale of available for sale securities	**19,575**	16,741	12,540
Proceeds from maturity of available for sale securities	**25,438**	15,717	14,021
Purchases of available for sale securities	**(49,734)**	(33,450)	(27,975)
Net acquisitions of premises and equipment	**(398)**	(390)	(397)
Net proceeds from sale of real estate	**—**	—	57
Change in assets purchased under reverse repurchase agreements	**(458)**	39	(17,474)
Net cash used in acquisition of subsidiaries	**(281)**	(99)	(3,120)
Net proceeds from divestitures	**—**	—	478
Net cash used in investing activities	**(5,245)**	(6,146)	(23,016)
Cash flows from financing activities			
Issue of RBC Trust Capital Securities (RBC TruCS)	**—**	—	750
Change in deposits — Canada	**11,564**	2,402	2,434
Change in deposits — International	**3,045**	4,997	15,690
Issue of subordinated debentures	**—**	635	1,025
Repayment of subordinated debentures	**(100)**	(501)	(580)
Issue of preferred shares	**—**	—	250
Redemption of preferred shares for cancellation	**(634)**	(464)	(295)
Issuance costs	**(15)**	(5)	(24)
Issue of common shares	**183**	168	657
Purchase of common shares for cancellation	**(852)**	(764)	(509)
Payment of dividends	**(1,181)**	(1,104)	(972)
Change in obligations related to assets sold under repurchase agreements	**2,626**	245	11,629
Change in short-term borrowings of subsidiaries	**(2,359)**	3,335	(387)
Net cash provided by financing activities	**12,277**	8,944	29,668
Net change in cash and due from banks	**353**	742	845
Cash and due from banks at beginning of year	**2,534**	1,792	947
Cash and due from banks at end of year	**$ 2,887**	$ 2,534	$ 1,792
Supplemental disclosure of cash flow information			
Amount of interest paid in year	**$ 7,170**	$ 8,229	$ 11,149
Amount of income taxes paid in year	**$ 1,723**	$ 738	$ 1,443

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 inter-company transactions and balances. 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 income our share of earnings, gains and losses realized on dispositions and writedowns to reflect other than temporary impairment in value 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.

The effects of translating operations of our subsidiaries, foreign branches and associated corporations with a functional currency other than the Canadian dollar are included in Other comprehensive income along with related hedge and tax effects. On disposal of such investments, the accumulated net translation gain or loss is included in Non-interest income. Other foreign currency translation gains and losses (net of hedging activities) are included in Non-interest income.

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 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.

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 Gain (loss) on sale of available for sale securities in Non-interest income.

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 and collection efforts are reasonably expected to result in repayment of debt within 180 days past due. 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 their fair value less costs to sell. Any excess of the carrying value of the loan over the recorded fair value of the assets acquired is recognized by a charge to the Allowance for loan losses.

Fees that relate to activities such 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 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 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. 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 quarterly 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 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, 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, 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 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 income.

Derivatives

Derivatives are primarily used in sales and trading activities. 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 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 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 a 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 prospectively. Non-trading derivatives that do not qualify for hedge accounting are carried at fair value on a gross basis as Derivative-related amounts in assets and liabilities, with changes in fair value recorded in Non-interest income.

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 income. 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 or the derivative is terminated or sold. 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. Hedge accounting is also discontinued upon the sale or early termination of the hedged item.

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 income. 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 income.

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 income.

Business combinations, goodwill and other intangibles

All business combinations are 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. Effective November 1, 2001, goodwill and indefinite life intangibles are no longer amortized but are subject to fair value impairment tests on at least an annual basis. Goodwill impairment is assessed at the reporting unit level on at least an annual basis on August 1. 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.

If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit.

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 enacted tax rates 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 more likely than not 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 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 postretirement 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 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, and the loans removed from the Consolidated balance sheet when we are deemed to have surrendered control over such assets and have received in exchange consideration other than beneficial interests in these transferred loans. For a surrender of control to occur, the transferred loans must be isolated from the seller, even in bankruptcy or other receivership; the purchaser must have the legal right to sell or pledge the transferred loans or, if the purchaser is a Qualifying Special Purpose Entity meeting certain restrictions established by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140), its investors have the right to sell or pledge their ownership interest in the

entity; and the seller must not continue to control the transferred loans through an agreement to repurchase them or have a right to cause the loans to be returned. If the conditions are not met, the transfer is considered to be a secured borrowing, the loans remain on the Consolidated balance sheet and the proceeds are recognized as a liability.

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 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. 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

Investments are included in Available for sale securities. Investment income is included in Insurance premiums, investment and fee income under Non-interest income.

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

Insurance claims and policy benefit liabilities represent current claims and 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, included in Other assets, consist of commissions, certain underwriting costs and other costs that vary with and are primarily related to the acquisition of new business. Amortization of deferred acquisition costs is included in Insurance policyholder bene- fits, claims and acquisition 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. Deferred acquisition costs are reviewed for recoverability based on the profitability of the underlying insurance contract and if not recoverable, are charged to Insurance policyholder benefits, claims and acquisition expense.

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

Separate account assets and liabilities represent funds for which investment income, gains and losses are accrued directly to the contract holders. The contractual arrangement is such that the underlying assets are registered in our name but the separate account policyholder bears the risk and rewards of the fund's investment performance. We provide minimum death benefit and maturity value guarantees on separate accounts. The liability associated with these minimum guarantees is recorded in Insurance claims and policy benefit liabilities. Separate account assets are carried at market value, are legally segregated and are not subject to claims that arise out of our other business. We derive only fee income from separate account assets, reflected in Insurance premiums, investment and fee income. Fee income includes management fees, mortality, policy, administration and surrender charges.

Significant accounting changes

Guarantees

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), which expands previously issued accounting guidance and requires additional disclosure by a guarantor in its interim and annual financial statements issued after December 15, 2002, for certain guarantees. FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of an obligation assumed by issuing a guarantee. The provision for initial recognition and measurement of the liability is applied on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a significant impact on our financial position or results of operations.

Stock-based compensation

We adopted the fair value method of accounting recommended in FASB Statement No. 123, *Accounting for Stock-Based Compensation*, prospectively for new stock-based compensation awards granted after November 1, 2002. The impact of this adoption is included in note 18.

Derivative instruments and hedging activities

In April 2003, the FASB issued Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (FAS 149), which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under FAS 133. FAS 149 is effective for contracts entered into or modified and hedging relationships designated after June 30, 2003, except in certain circumstances. The adoption of FAS 149 did not have a significant impact on the consolidated financial statements.

Classification of certain financial instruments

In May 2003, the FASB issued Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (FAS 150). FAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity in its financial statements. FAS 150 requires companies to classify financial instruments that are within the scope of the standard as a liability (or asset in some circumstances) when that financial instrument embodies an obligation of the issuer. FAS 150 is effective for all financial instruments of public companies entered into or modified after May 31, 2003, and is otherwise effective for the first interim period beginning after June 15, 2003. The adoption of this Statement did not have a material impact on our financial statements.

Basis of consolidation

Pursuant to FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46), as described in more detail below, we consolidate Variable Interest Entities (VIEs) created after January 31, 2003, where we are the entity's Primary Beneficiary.

NOTE 1 Significant accounting policies (continued)

Significant future accounting standards

Consolidation of Variable Interest Entities

On January 17, 2003, the FASB issued FIN 46, which clarifies the application of Accounting Research Bulletin 51, *Consolidated Financial Statements,* to those entities (defined as Variable Interest Entities (VIEs), and more commonly referred to as special purpose entities (SPEs)), in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack either voting control, an obligation to absorb expected losses, or the right to receive expected residual returns. FIN 46 requires consolidation of VIEs by the Primary Beneficiary. The Primary Beneficiary is defined as the party who has exposure to the majority of the expected losses and/or expected residual returns of the VIE. This interpretation applies immediately to all VIEs created after January 31, 2003, and no later than the end of the first interim or annual reporting period ending after December 15, 2003, for VIEs created prior to February 1, 2003. The anticipated impact of adopting FIN 46 for VIEs created prior to February 1, 2003, is discussed below.

Securitization of client financial assets

We administer multi-seller asset-backed commercial paper conduit programs (multi-sellers), which purchase financial assets from our clients (totalling $26.8 billion as at October 31, 2003) and finance those purchases by issuing asset-backed commercial paper. Clients utilize multi-sellers to diversify their financing sources and to reduce funding costs. We provide backstop liquidity facilities and partial credit enhancement to the multi-sellers. These are included in our disclosure on guarantees in note 20 and represent our maximum possible exposure to loss, which was $25.7 billion as at October 31, 2003. The commercial paper is non-recourse to us except through our participation in liquidity and/or credit enhancement facilities and we have no rights to the assets owned by the multi-sellers. We are currently in the process of restructuring these multi-sellers and as a result we do not expect to consolidate the assets and liabilities of these vehicles on our Consolidated balance sheet.

Securitization of our financial assets

We employ VIEs in the process of securitizing our assets. We do not expect to consolidate these VIEs under FIN 46 either because such a VIE is a qualifying SPE under FAS 140, which is specifically exempt from consolidation under FIN 46, or because we are not the Primary Beneficiary. For details on our securitization activities please refer to note 7.

Mutual funds

We sponsor several open-end mutual funds, some of which may be VIEs. We are involved with their ongoing management and administration for which we earn a fee based on asset value. We do not guarantee either principal or returns to the investors in these funds. We may be the Primary Beneficiary of the VIE mutual funds that experience low volatility of returns, such as money market funds, due to our role as trustee and fund manager, which entails decision-making and results in our fees being included in expected residual returns. Consolidating these funds would increase the Consolidated balance sheet by approximately $13 billion as estimated at October 31, 2003. Our maximum exposure to loss from our involvement with the VIE funds is $23 million as at October 31, 2003, primarily as a result of our investments in seed capital. Our rights to the assets of these mutual funds are restricted to this seed capital. The other investors in these funds do not have recourse to us.

Asset management

We act as collateral manager for several Collateralized Debt Obligation (CDO) entities, which invest in leveraged bank-initiated term loans, high yield bonds and mezzanine corporate debt. The notional amount of assets within the CDOs we managed at the end of October 31, 2003, is $1.1 billion and our maximum exposure to loss is $13 million, which represents our investment in a first-loss tranche. We currently consolidate a CDO with assets of $.4 billion. We are evaluating these CDOs and it is possible that we are the Primary Beneficiary. We have no rights to the assets of these CDOs and the creditors of these CDOs have no recourse to us, except as a result of our investment in the first-loss tranche.

Creation of investment products

We use repackaging entities, which generally transform credit derivatives into cash instruments, to distribute credit risk and create unique credit products to meet investors' specific requirements. We may enter into derivative contracts with these entities in order to convert various risk factors such as yield, currency or credit risk of underlying assets to meet the needs of the investors. We transfer assets to these entities as collateral for notes issued, which do not meet sale recognition criteria under FAS 140. We retain all the economic risks and rewards of these assets, which are already accounted for on our Consolidated balance sheet and amounted to $1.5 billion as at October 31, 2003. In addition, we also invest in the notes issued by these entities and held $.5 billion as at October 31, 2003. We are the Primary Beneficiary where we hold notes that expose us to a majority of the expected losses. Since the assets are already included on our Consolidated balance sheet pursuant to FAS 140, the impact of consolidation is not expected to be material.

Compensation vehicles

We offer certain employees stock-based compensation plans and co-investment opportunities in investment portfolios. Where we are entitled to forfeitures or unvested shares or where we have financed the employees' investment, we are generally considered the Primary Beneficiary of the vehicles used for this purpose due to our relationship with the employees. These vehicles had total assets of $.2 billion as at October 31, 2003, which represent our maximum exposure to loss.

Assets administered in trust

We act as trustee administering assets settled by clients, on behalf of designated beneficiaries. Clients use these arrangements primarily for asset protection, intergenerational wealth transfer, and estate and financial planning. Where we have lending relationships with the trust, they are

fully collateralized with secure assets, thereby our exposure to loss is nil. We may have to consolidate trust arrangements with assets approximating $.6 billion as at October 31, 2003. We have no rights to these assets except for our fees and recovery of expenses. The beneficiaries do not have recourse to us.

We are involved in various capacities — such as lender, derivative counterparty, investor, manager, trustee — with several other entities that may potentially be VIEs. These include entities set up for or by clients for structured finance, securitization and other purposes. We continue to evaluate our involvement with potential VIEs, explore restructuring opportunities and monitor developments which affect our current interpretation of FIN 46.

On October 31, 2003, the FASB issued an Exposure Draft proposing to clarify some of the provisions of FIN 46 and to exempt certain entities from its requirements, primarily most of the mutual funds and assets administered in trust. If this Exposure Draft is adopted in its current form, we would not consolidate the amounts described earlier under these exemptions.

Note 2 Significant acquisitions

2003

During 2003, we completed the acquisitions of Admiralty Bancorp, Inc. (Admiralty), Business Men's Assurance Company of America (BMA) and Sterling Capital Mortgage Company (SCMC). The details of these acquisitions are as follows:

	Admiralty	BMA	SCMC
Acquisition date	January 29, 2003	May 1, 2003	September 30, 2003
Business segment	RBC Banking	RBC Insurance/RBC Investments	RBC Banking
Percentage of shares acquired	100%	100%	100%
Purchase consideration	Cash payment of US$153	Cash payment of US$207 (1)	Cash payment of US$100
Fair value of tangible assets acquired	$942	$3,099	$470
Fair value of liabilities assumed	(866)	(2,891)	(437)
Fair value of identifiable net tangible assets acquired	76	208	33
Core deposit intangibles (2)	23	—	—
Value of business acquired (3)	—	69	—
Goodwill	134	19	103
Total purchase consideration	$233	$296	$136

(1) Includes the related acquisition of Jones & Babson Inc. by RBC Dain Rauscher for cash purchase consideration of US$19 million in exchange for net tangible assets with a fair value of $9 million and goodwill of $19 million.

(2) Core deposit intangibles for Admiralty are amortized on a straight-line basis over an estimated average useful life of 10 years.

(3) Value of business acquired is amortized on a straight-line basis over a period of up to 30 years.

2002

During 2002, we completed the acquisitions of the private banking business of Barclays PLC in the Americas (Barclays) and Eagle Bancshares, Inc. (Eagle Bancshares). 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	Cash payment of US$120	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)	80	—
Goodwill	—	133
Total purchase consideration	$181	$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 3 Results by business and geographic segment

2003	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,546	$ —	$ 419	$ 410	$ 164	$ 109	$ 6,648	$ 5,190	$ 1,187	$ 271
Non-interest income	2,106	2,045	3,111	2,215	680	142	10,299	5,108	3,428	1,763
Total revenues	7,652	2,045	3,530	2,625	844	251	16,947	10,298	4,615	2,034
Provision for credit losses	554	—	(2)	189	2	(28)	715	521	106	88
Insurance policyholder benefits, claims and acquisition expense	—	1,404	—	—	—	—	1,404	552	414	438
Non-interest expense	4,642	424	2,911	1,671	595	(7)	10,236	5,824	3,504	908
Net income before income taxes	2,456	217	621	765	247	286	4,592	3,401	591	600
Income taxes	894	(11)	209	271	69	11	1,443	1,208	202	33
Non-controlling interest	8	—	—	3	—	102	113	101	7	5
Net income	$ 1,554	$ 228	$ 412	$ 491	$ 178	$ 173	$ 3,036	$ 2,092	$ 382	$ 562
Total average assets (1)	$162,400	$ 8,900	$ 17,600	$ 199,300	$ 2,000	$11,800	$402,000	$233,900	$82,200	$85,900

2002	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,557	$ —	$ 371	$ 532	$ 136	$ 332	$ 6,928	$ 5,466	$ 1,106	$ 356
Non-interest income	2,090	1,910	3,276	2,142	672	42	10,132	4,746	3,696	1,690
Total revenues	7,647	1,910	3,647	2,674	808	374	17,060	10,212	4,802	2,046
Provision for credit losses	626	—	(1)	465	10	(35)	1,065	529	440	96
Insurance policyholder benefits, claims and acquisition expense	—	1,330	—	—	—	—	1,330	368	431	531
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	$ 1,546	$ 190	$ 346	$ 439	$ 173	$ 204	$ 2,898	$ 2,150	$ 210	$ 538
Total average assets (1)	$156,500	$ 7,000	$ 15,100	$ 180,700	$ 2,400	$10,100	$371,800	$226,900	$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	$ 5,343	$ —	$ 384	$ 408	$ 148	$ 8	$ 6,291	$ 5,493	$ 371	$ 427
Non-interest income	1,873	1,695	2,859	2,352	710	25	9,514	5,279	2,777	1,458
Total revenues	7,216	1,695	3,243	2,760	858	33	15,805	10,772	3,148	1,885
Provision for credit losses	732	—	2	407	(2)	(20)	1,119	757	379	(17)
Insurance policyholder benefits, claims and acquisition expense	—	1,153	—	—	—	—	1,153	345	261	547
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 (1)	$143,000	$ 6,400	$ 11,300	$ 159,500	$ 2,400	$9,100	$331,700	$212,800	$50,900	$68,000

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

For management reporting purposes, our operations are grouped into the main 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 management reporting process measures the performance of these business segments based on our management structure and is not necessarily comparable with similar information for other financial services companies.

We use a management reporting model that includes methodologies for funds transfer pricing, attribution of economic capital and cost transfers to measure business segment results. Operating revenues and expenses directly associated with each segment are included in the business segment results. Transfer pricing of funds and inter-segment goods and services are generally at market rates. Overhead costs, indirect expenses and capital are attributed to the business segments based on allocation and risk-based methodologies, which are subject to ongoing review.

For geographic reporting, our segments are grouped into Canada, United States and Other International. Transactions are recorded based on client location and local residing currency and are subject to foreign exchange rate fluctuations with respect to the movement in the Canadian dollar.

NOTE 4 Goodwill and Other intangibles

We have completed the 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, 2004, to October 31, 2008, is approximately $70 million.

The following table discloses the changes in goodwill over 2003 and 2002.

Goodwill

	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Total
Balance at October 31,2001	$ 2,105	$ 196	$ 1,811	$ 723	$ 117	$ 4,952
Goodwill acquired during the year	179	—	—	—	2	181
Other adjustments (1)	(55)	(9)	(19)	(12)	2	(93)
Balance at October 31, 2002	2,229	187	1,792	711	121	5,040
Goodwill acquired during the year	256	—	43	—	—	299
Other adjustments (1)	(347)	(18)	(258)	(84)	1	(706)
Balance at October 31, 2003	$ 2,138	$ 169	$ 1,577	$ 627	$ 122	$ 4,633

(1) Other adjustments include primarily foreign exchange translations on non-Canadian dollar denominated goodwill.

Other intangibles

	2003			2002		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Core deposit intangibles	**$ 381**	**$ (93)**	**$ 288**	$ 423	$ (50)	$ 373
Customer lists and relationships	**314**	**(71)**	**243**	318	(52)	266
Mortgage servicing rights	**75**	**(27)**	**48**	41	(18)	23
Other intangibles	**3**	**(2)**	**1**	5	(2)	3
Total	**$ 773**	**$ (193)**	**$ 580**	$ 787	$ (122)	$ 665

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, as goodwill is no longer amortized, but assessed for impairment effective November 1, 2001.

	2003	2002	2001
Net income:			
Reported net income	**$ 3,036**	$ 2,898	$ 2,435
Amortization of goodwill, net of related income taxes	**—**	—	250
Adjusted net income	**$ 3,036**	$ 2,898	$ 2,685
Earnings per share:			
Reported earnings per share	**$ 4.48**	$ 4.16	$ 3.58
Amortization of goodwill, net of related income taxes	**—**	—	.39
Adjusted earnings per share	**$ 4.48**	$ 4.16	$ 3.97
Diluted earnings per share:			
Reported diluted earnings per share	**$ 4.43**	$ 4.12	$ 3.55
Amortization of goodwill, net of related income taxes	**—**	—	.39
Adjusted diluted earnings per share	**$ 4.43**	$ 4.12	$ 3.94

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	2003 Total	2002 Total
Trading account							
Canadian government debt	**$ 6,020**	**$ 4,996**	**$ 1,188**	**$ 1,132**	**$ —**	**$ 13,336**	$12,675
U.S. Treasury and other U.S. agencies	**1,617**	**1,850**	**332**	**466**	**—**	**4,265**	1,615
Other OECD government debt	**1,266**	**955**	**878**	**476**	**—**	**3,575**	3,833
Mortgage-backed securities	**107**	**271**	**135**	**376**	**—**	**889**	612
Asset-backed securities	**90**	**120**	**2,805**	**3,333**	**—**	**6,348**	6,539
Corporate debt	**4,207**	**4,142**	**1,886**	**1,487**	**—**	**11,722**	9,793
Other debt	**5,415**	**6,459**	**1,072**	**740**	**766**	**14,452**	9,211
Equities	**—**	**—**	**—**	**—**	**26,427**	**26,427**	25,179
	18,722	**18,793**	**8,296**	**8,010**	**27,193**	**81,014**	69,457
Available for sale							
Canadian government debt							
Amortized cost	**4,151**	**4,840**	**524**	**308**	**—**	**9,823**	5,519
Estimated fair value	**4,158**	**4,902**	**554**	**338**	**—**	**9,952**	5,613
Yield (2)	**2.9%**	**4.1%**	**5.0%**	**6.4%**	**—**	**3.7%**	4.5%
U.S. Treasury and other U.S. agencies							
Amortized cost	**1,481**	**2,972**	**308**	**67**	**—**	**4,828**	2,068
Estimated fair value	**1,481**	**2,960**	**281**	**67**	**—**	**4,789**	2,188
Yield (2)	**1.0%**	**2.2%**	**1.3%**	**4.9%**	**—**	**1.8%**	4.6%
Other OECD government debt							
Amortized cost	**4,375**	**326**	**74**	**—**	**—**	**4,775**	2,605
Estimated fair value	**4,378**	**329**	**74**	**—**	**—**	**4,781**	2,633
Yield (2)	**.1%**	**.8%**	**—**	**—**	**—**	**.1%**	.7%
Mortgage-backed securities							
Amortized cost	**115**	**3,546**	**536**	**1,315**	**—**	**5,512**	8,308
Estimated fair value	**120**	**3,570**	**536**	**1,317**	**—**	**5,543**	8,465
Yield (2)	**6.7%**	**4.2%**	**4.8%**	**4.9%**	**—**	**4.5%**	4.8%
Asset-backed securities							
Amortized cost	**52**	**125**	**104**	**48**	**—**	**329**	358
Estimated fair value	**52**	**125**	**104**	**45**	**—**	**326**	375
Yield (2)	**2.0%**	**7.3%**	**6.4%**	**2.9%**	**—**	**5.6%**	7.2%
Corporate debt							
Amortized cost	**1,068**	**1,155**	**290**	**543**	**—**	**3,056**	3,447
Estimated fair value	**1,079**	**1,172**	**304**	**552**	**—**	**3,107**	3,511
Yield (2)	**1.4%**	**2.7%**	**6.3%**	**5.7%**	**—**	**3.1%**	4.3%
Other debt							
Amortized cost	**4,091**	**869**	**208**	**266**	**505**	**5,939**	1,868
Estimated fair value	**4,073**	**879**	**215**	**279**	**509**	**5,955**	1,871
Yield (2)	**.5%**	**5.1%**	**5.8%**	**6.5%**	**4.2%**	**3.1%**	2.5%
Equities							
Cost	**—**	**—**	**51**	**—**	**1,242**	**1,293**	1,272
Estimated fair value	**—**	**—**	**40**	**—**	**1,290**	**1,330**	1,240
Amortized cost	**15,333**	**13,833**	**2,095**	**2,547**	**1,747**	**35,555**	25,445
Estimated fair value	**15,341**	**13,937**	**2,108**	**2,598**	**1,799**	**35,783**	25,896
Total carrying value of securities	**$34,063**	**$32,730**	**$10,404**	**$10,608**	**$28,992**	**$116,797**	$95,353

(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) 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

	2003	2002

	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	**$ 9,823**	**$ 135**	**$ (6)**	**$ 9,952**	$ 5,519	$ 97	$ (3)	$ 5,613
U.S. Treasury and other U.S. agencies	**4,828**	**16**	**(55)**	**4,789**	2,068	120	—	2,188
Other OECD government debt	**4,775**	**6**	**—**	**4,781**	2,605	28	—	2,633
Mortgage-backed securities	**5,512**	**59**	**(28)**	**5,543**	8,308	158	(1)	8,465
Asset-backed securities	**329**	**5**	**(8)**	**326**	358	28	(11)	375
Corporate debt	**3,056**	**71**	**(20)**	**3,107**	3,447	137	(73)	3,511
Other debt	**5,939**	**18**	**(2)**	**5,955**	1,868	8	(5)	1,871
Equities	**1,293**	**45**	**(8)**	**1,330**	1,272	28	(60)	1,240
	$35,555	**$ 355**	**$ (127)**	**$35,783**	$25,445	$ 604	$ (153)	$25,896

Realized gains and losses on sale of Available for sale securities

	2003	2002	2001
Realized gains	**$ 87**	$ 82	$ 103
Realized losses	**(68)**	(194)	(233)
Gain (loss) on sale of Available for sale securities	**$ 19**	$ (112)	$ (130)

NOTE 6 Loans (1)

	2003	2002
Canada		
Residential mortgage	**$ 73,978**	$ 67,700
Personal	**28,262**	25,918
Credit card	**4,663**	4,740
Business and government	**26,852**	29,832
	133,755	128,190
United States		
Residential mortgage	**4,096**	4,353
Personal	**5,015**	5,269
Credit card	**107**	125
Business and government	**17,423**	21,418
	26,641	31,165
Other International		
Residential mortgage	**745**	789
Personal	**726**	769
Credit card	**46**	49
Business and government	**10,634**	10,561
	12,151	12,168
Total loans (2)	**172,547**	171,523
Allowance for loan losses	**(2,055)**	(2,203)
Total loans net of allowance for loan losses	**$170,492**	$169,320

(1) Includes all loans booked by location, regardless of currency or residence of borrower.

(2) Loans are net of unearned income of $113 million (2002 — $131 million).

Loan maturities and rate sensitivity

	Maturity term (1)				Rate sensitivity			
As at October 31, 2003	**Under 1 year**	**1 to 5 years**	**Over 5 years**	**Total**	**Floating**	**Fixed rate**	**Non-rate-sensitive**	**Total**
Residential mortgage	**$20,942**	**$52,889**	**$ 4,988**	**$ 78,819**	**$ 7,571**	**$ 71,117**	**$ 131**	**$ 78,819**
Personal	**24,726**	**6,982**	**2,295**	**34,003**	**20,320**	**13,448**	**235**	**34,003**
Credit card	**4,816**	**—**	**—**	**4,816**	**—**	**2,977**	**1,839**	**4,816**
Business and government	**40,369**	**10,674**	**3,866**	**54,909**	**18,552**	**34,978**	**1,379**	**54,909**
Total loans	**$90,853**	**$70,545**	**$11,149**	**172,547**	**$46,443**	**$122,520**	**$ 3,584**	**172,547**
Allowance for loan losses				**(2,055)**				**(2,055)**
Total loans net of allowance for loan losses				**$170,492**				**$170,492**

(1) Based on the earlier of contractual repricing or maturity date.

Non accrual loans

	2003	2002
Residential mortgage	**$ 131**	$ 131
Personal	**235**	306

Business and government	**296**	346
	662	783
Individually impaired business and government	**1,083**	1,505
	$ 1,745	$ 2,288
Allowance for impaired loans	**$ 479**	$ 555
Average balance of impaired loans (1)	**$ 1,388**	$ 1,607

(1) For the year ended October 31, 2001, the average balance of impaired loans was $1,190 million.

NOTE 6 Loans (continued)

Allowance for loan losses

	2003	2002	2001
Allowance for credit losses at beginning of year	**$ 2,314**	$ 2,392	$ 1,975
Charge-offs	**(976)**	(1,457)	(1,125)
Recoveries	**170**	198	185
Net charge-offs	**(806)**	(1,259)	(940)
Provision for credit losses	**715**	1,065	1,119
Acquisition of Admiralty Bancorp, Inc.	**8**	—	—
Acquisition of Eagle Bancshares, Inc.	**—**	18	—
Acquisition of Centura Banks, Inc.	**—**	—	157
Other	**(67)**	98	81
Allowance for credit losses at end of year	**2,164**	2,314	2,392
Allowance for off-balance sheet and other items (1)	**(109)**	(109)	(109)
Allowance for tax-exempt securities	**—**	(2)	(5)
Allowance for loan losses at end of year	**$ 2,055**	$ 2,203	$ 2,278

(1) The allowance for off-balance sheet and other items is included in Other liabilities.

NOTE 7 Securitizations

The following table summarizes our new securitization activity for 2003, 2002 and 2001:

New securitization activity

	2003			2002			2001		
	Credit card loans	Residential mortgage loans (1)	Commercial mortgage loans	Credit card loans	Residential mortgage loans (1)	Commercial mortgage loans	Credit card loans	Residential mortgage loans (1)	Commercial mortgage loans
Securitized and sold	**$ 1,000**	**$ 610**	**$ 131**	$ —	$ 1,708	$ —	$ 1,000	$ 723	$ —
Net cash proceeds received	**1,000**	**607**	**135**	—	1,691	—	1,000	720	—
Retained rights to future excess interest	**9**	**24**	**—**	—	71	—	7	25	—
Pre-tax gain on sale	**9**	**21**	**4**	—	54	—	7	22	—

(1) Government guaranteed residential mortgage loans securitized during the year through the creation of mortgage-backed securities and retained were $3,473 million (2002 — $2,026 million; 2001 — $77 million). Retained mortgage-backed securities are classified as Available for sale.

The key assumptions used to value the retained interests at the date of securitization, for activity in 2003, are as follows:

Key assumptions

	Credit card loans	Residential mortgage loans
Payment rate (1)	**37.69%**	**12.00%**
Excess spread, net of credit losses	**5.74**	**1.17**
Expected credit losses	**1.64**	**—**
Discount rate	**10.00**	**4.11**

(1) Represents monthly payment rate for credit card loans.

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, 2003, was .41%.

The following table summarizes the loan principal, nonaccrual and net charge-offs for total loans reported on our Consolidated balance sheet and securitized loans that we manage as at October 31, 2003 and 2002:

Loans reported and securitized

	2003			2002		
	Loan principal	**Nonaccrual (1)**	**Net charge-offs**	**Loan principal**	**Nonaccrual(1)**	**Net charge-offs**
Residential mortgage	**$ 85,031**	**$ 233**	**$ 10**	$ 78,323	$ 228	$ 12
Personal	**34,003**	**287**	**305**	31,956	371	328
Credit card	**7,491**	**46**	**184**	6,589	41	172
Business and government	**54,909**	**1,401**	**336**	61,811	1,865	779
Total loans managed (2)	**181,434**	**1,967**	**835**	178,679	2,505	1,291
Less: Loans securitized and managed (3)	**8,887**	**—**	**29**	7,156	—	32
Total loans reported on the Consolidated balance sheet	**$ 172,547**	**$ 1,967**	**$ 806**	$ 171,523	$ 2,505	$ 1,259

(1) Includes past due loans greater than 90 days not classified as nonaccrual.

(2) Excludes any assets we have temporarily acquired with the intent at acquisition to sell to special purpose entities.

(3) Loan principal includes credit card loans of $2,675 million (2002 — $1,675 million), mortgage-backed securities created and sold of $2,936 million (2002 — $2,416 million), mortgage-backed securities created and retained of $3,276 million (2002 — $3,065 million).

At October 31, 2003, key economic assumptions and the sensitivity of the current fair value of our 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 2003, 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	$ 19.7	$ 95.4
Weighted average remaining service life (in years)	.2	3.3
Payment rate	37.69%	12.00%
Impact on fair value of 10% adverse change	$ (1.2)	$ (2.2)
Impact on fair value of 20% adverse change	(2.3)	(4.4)
Excess spread, net of credit losses	4.72%	1.14%
Impact on fair value of 10% adverse change	$ (1.8)	$ (9.5)
Impact on fair value of 20% adverse change	(3.8)	(19.1)
Expected credit losses	1.64%	—
Impact on fair value of 10% adverse change	$ (.5)	—
Impact on fair value of 20% adverse change	(1.2)	—
Discount rate	10.00%	3.79%
Impact on fair value of 10% adverse change	$ —	$ (.4)
Impact on fair value of 20% adverse change	(.1)	(.8)

(1) All rates are annualized except for the credit card loans payment rate, which is monthly.

Cash flows from securitizations (1)

2003	**2002**	**2001**

	Credit card loans	Residential mortgage loans	Credit card loans	Residential mortgage loans	Credit card loans	Residential mortgage loans
Proceeds reinvested in revolving securitizations	**$ 7,843**	**$ 1,268**	$ 8,512	$ 303	$ 6,972	$ 13
Cash flows from retained interests in securitizations	**64**	**13**	64	15	60	10

(1) Not applicable to commercial mortgages.

NOTE 8 Premises and equipment

	2003			2002
	Cost	Accumulated depreciation	Net book value	Net book value
Land	**$ 154**	**$ —**	**$ 154**	$ 172
Buildings	**625**	**294**	**331**	319
Computer equipment	**1,793**	**1,257**	**536**	442
Furniture, fixtures and other equipment	**948**	**668**	**280**	326
Leasehold improvements	**889**	**535**	**354**	380
	$ 4,409	**$ 2,754**	**$ 1,655**	$ 1,639

The depreciation expense for premises and equipment amounted to $380 million and $388 million in 2003 and 2002, respectively.

NOTE 9 Other assets

	2003	2002
Receivable from brokers, dealers and clients	**$ 2,568**	$ 3,229
Investment in associated corporations	**1,511**	224
Accrued interest receivable	**1,288**	1,287
Insurance-related assets (1)	**1,190**	1,041
Net deferred income tax asset	**883**	1,003
Prepaid pension benefit cost (2)	**138**	109
Other	**10,919**	4,651
	$18,497	$11,544

(1) Insurance-related assets include policy loan balances, premiums outstanding, deferred acquisition costs and value of business acquired.

(2) Prepaid pension benefit cost represents the cumulative excess of pension fund contributions over pension benefit expense.

NOTE 10 Deposits

	2003				2002
	Demand (1)	Notice (2)	Term (3)	Total	Total
Personal	**$11,368**	**$31,812**	**$ 63,529**	**$106,709**	$101,892
Business and government	**40,536**	**8,906**	**80,494**	**129,936**	119,766
Bank (4)	**2,178**	**63**	**21,632**	**23,873**	23,382
	$54,082	**$40,781**	**$165,655**	**$260,518**	$245,040
Non-interest-bearing					
Canada				**$ 24,388**	$ 23,222
United States				**2,076**	2,078
Other International				**1,107**	891
Interest-bearing					
Canada (4)				**130,135**	119,737
United States				**36,361**	35,495
Other International				**66,451**	63,617
				$260,518	$245,040

(1) Deposits payable on demand include all deposits for which we do not have the right to notice of withdrawal. These deposits are primarily 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, 2003, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $11.9 billion (2002 — $11.3 billion) and other notes and similar instruments in bearer form we have issued of $27.3 billion (2002 — $21.7 billion).

(4) Includes a $900 million senior deposit note issued to RBC Capital Trust II (described in note 13), which bears interest at an annual rate of 5.812% maturing on December 31, 2053. This note is redeemable, in whole or in part, on and after December 31, 2008, or earlier in certain circumstances, at our option, subject to the approval of the Superintendent of Financial Institutions Canada. It is convertible at any time at the option of RBC Capital Trust II into 40 of our First Preferred Shares Series U per $1,000 of note principal. RBC Capital Trust II will exercise the conversion right in circumstances in which holders of RBC TruCS Series 2013 exercise their holder exchange right to acquire our First Preferred Shares Series U.

NOTE 11 Other liabilities

	2003	2002
Short-term borrowings of subsidiaries	**$ 7,814**	$10,173
Payable to brokers, dealers and clients	**3,241**	3,630
Accrued interest payable	**1,387**	1,263
Accrued pension and other postretirement benefit expense (1)	**1,092**	919
Insurance-related liabilities	**342**	555
Dividends payable	**313**	289
Other	**12,010**	8,245
	$26,199	$25,074

(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	2003	2002
September 3, 2008		(1)	5.45%			**$ —**	$ 100
March 15, 2009			6.50%		US$125	**165**	195
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	**396**	467
November 8, 2011	November 8, 2006	(8)		(9)	US$400	**526**	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	**396**	467
						6,243	6,614
Fair value adjustment (16)						**338**	346
						$ 6,581	$6,960

(1) Redeemed on September 3, 2003, 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 basis points 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 basis points above the 30-day Bankers' Acceptance rate.

(15) Interest at a rate of 25 basis points 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.

Maturity schedule

The aggregate maturities of subordinated debentures, based on the maturity dates under the terms of issue, are as follows:

2004—2008	$ —
2009—2013	4,552
Thereafter	2,029
	$6,581

NOTE 13 Non-controlling interest in subsidiaries

	2003	2002
Trust Capital Securities issued by RBC Capital Trust (1)	**$ 1,434**	$ 1,434
Other	**40**	35
	$ 1,474	$ 1,469

(1) Including accrued distribution amounts.

NOTE 13 Non-controlling interest in subsidiaries (continued)

We issue RBC Trust Capital Securities (RBC TruCS) through our consolidated subsidiary RBC Capital Trust (Trust), a closed-end trust established under the laws of the Province of Ontario. The proceeds of the RBC TruCS are used to fund the Trust's acquisition of trust assets. Upon consolidation, these RBC TruCS are reported as Non-controlling interest in subsidiaries. In 2003, we established another entity, RBC Capital Trust II (Trust II), an open-end trust, to issue RBC TruCS, the proceeds of which are used to purchase a senior deposit note from us. Trust II is a Variable Interest Entity under FIN 46. We do not consolidate Trust II as we are deemed not to be its Primary Beneficiary. Therefore, the RBC TruCS issued by Trust II are not reported on our Consolidated balance sheet, but the senior deposit note is reported in Deposits (described in note 10). Holders of RBC TruCS are eligible to receive semi-annual noncumulative fixed cash distributions. Should the Trusts fail to pay the semi-annual distributions in full, we will not declare dividends of any kind on any of our preferred or common shares.

The terms of the RBC TruCS outstanding at October 31, 2003, were as follows:

				Redemption date	Conversion date	
Issuer	Issuance date	Distribution date	Annual yield	At the option of the Trust	At the option of the holder (3)	Principal amount
RBC Capital Trust (1), (4)						
650,000 Trust Capital Securities — Series 2010	July 24, 2000	June 30, December 31	7.288%	December 31, 2005	December 31, 2010	**$650**
750,000 Trust Capital Securities — Series 2011	December 6, 2000	June 30, December 31	7.183%	December 31, 2005	December 31, 2011	**750**
Total included in Non-controlling interest in subsidiaries						**$1,400**
RBC Capital Trust II (2), (4)						
900,000 Trust Capital Securities — Series 2013	July 23, 2003	June 30, December 31	5.812%	December 31, 2008	Any time	**$900**

(1) Subject to the approval of the Superintendent of Financial Institutions Canada (OSFI), the Trust may, in whole (but not in part), on the Redemption date specified above, and on any Distribution date thereafter, redeem the RBC TruCS Series 2010 and Series 2011, without the consent of the holders.

(2) Subject to the approval of OSFI, the Trust may, in whole or in part, on the Redemption date specified above, and on any Distribution date thereafter, redeem any outstanding RBC TruCS Series 2013, without the consent of the holders.

(3) Holders of RBC TruCS Series 2010 and Series 2011 may exchange, on any Distribution date on or after the conversion date specified above, RBC TruCS Series 2010 and Series 2011 for 40 non-cumulative redeemable First Preferred Shares, Series Q and Series R, respectively. Holders of RBC TruCS Series 2013 may, at any time, exchange all or part of their RBC TruCS Series 2013 for 40 non-cumulative redeemable First Preferred Shares Series U per RBC TruCS Series 2013.

(4) The RBC TruCS may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs earlier than six months prior to the conversion date of the holder's option or (ii) the Redemption Price if the redemption occurs on or after the date that is six months prior to the conversion date at the holder's option, as indicated above. Redemption Price refers to an amount equal to $1,000 plus the unpaid distributions to the Redemption date. Early Redemption Price refers to an amount equal to the greater of (i) the Redemption Price and (ii) the price calculated to provide an annual yield, equal to the yield on a Government of Canada bond issued on the Redemption date with a maturity date of June 30, 2010 and 2011, plus 33 basis points and 40 basis points, for Series 2010 and Series 2011, respectively, and a maturity date of December 31, 2013, plus 23 basis points, for Series 2013.

NOTE 14 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

	2003			2002			2001		
	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
Non-cumulative Series H (1)	**—**	**—**	**—**	—	—	—	—	—	1.69
US$ Non-cumulative Series I (1)	**—**	**—**	**—**	—	—	US. 02	8,000	315	US 1.91
Non-cumulative Series J (1)	**—**	**—**	**.90**	12,000	294	1.78	12,000	294	1.78
US$ Non-cumulative Series K (1)	**—**	**—**	**US .80**	10,000	384	US 1.58	10,000	392	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**	**128**	**US 1.44**	4,000	152	US 1.44	4,000	155	US 1.44
Non-cumulative Series S	**10,000**	**247**	**1.53**	10,000	247	1.53	10,000	247	.65
		$ 813			$1,515			$1,990	
Common									
Balance at beginning of year	**665,257**	**$6,963**		674,021	$6,926		602,398	$3,074	
Issued	**—**	**—**		—	—		12,305	576	
Issued under the stock option plan(2)	**5,303**	**190**		5,211	175		2,819	81	
Issued on the acquisition of Centura Banks, Inc.	**—**	**—**		—	—		67,413	3,317	
Issued on the acquisition of Richardson Greenshields Limited (3)	**—**	**—**		318	15		13	2	
Issuance costs, net of related income taxes	**—**	**—**		—	(1)		—	(12)	
Purchased for cancellation	**(14,539)**	**(154)**		(14,293)	(152)		(10,927)	(112)	
Balance at end of year	**656,021**	**$6,999**	**$ 1.72**	665,257	$6,963	$ 1.52	674,021	$6,926	$ 1.38

(1) On May 26, 2003, we redeemed First Preferred Shares Series J and K. 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 (SARs) awards, resulting in a reversal of the accrued liability, net of related income taxes, of $3 million (2002 — $8 million); and from renounced tandem SARs, net of related income taxes, of $4 million.

(3) During 2002, we exchanged nil (2001 — 36,527) Class B shares and 1,846,897 (2001 — 77,956) 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) common shares.

Terms of preferred shares

	Dividend per share (1)	Redemption date (2)	Redemption price (3)	Conversion dates: At the option of the bank (2), (4)	Conversion dates: At the option of the holder (5)
First Preferred					
Non-cumulative Series N	$ .293750	August 24, 2003	$ 26.00	August 24, 2003	August 24, 2008
Non-cumulative Series O	.343750	August 24, 2004	26.00	August 24, 2004	Not convertible
US$ Non-cumulative Series P	US .359375	August 24, 2004	US 26.00	August 24, 2004	Not convertible
Non-cumulative Series S	.381250	August 24, 2006	26.00	August 24, 2006	Not convertible

(1) Non-cumulative preferential dividends on Series 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 (OSFI) and the requirements of the *Bank Act* (Canada) (the act), we may, on or after the dates specified above, redeem First Preferred Shares. These may be redeemed for cash, 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 $.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 $.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 $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2010.

(3) Subject to the consent of OSFI and the requirements of the act, we may purchase First Preferred Shares for cancellation at a purchase price, 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 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 or RBC Capital Trust II fail to pay any required distribution on the capital trust securities in full, 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.

Normal course issuer bid

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 through the facilities of the Toronto and Montreal stock exchanges, representing approximately 3% of our outstanding common shares. 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. Under this renewed bid, 9,818,900 common shares were purchased, at an average cost of $52.27 per share, for $513 million, and 8,629,337 common shares were repurchased during fiscal 2003 at an average cost of $58.09 per share, for $502 million.

On June 24, 2003, we renewed our normal course issuer bid to purchase, for cancellation, up to 25 million of our common shares,

representing approximately 3.8% of our outstanding common shares. Under this renewed bid, 5,910,200 common shares were purchased, at an average cost of $59.30 per share for $350 million. During fiscal 2003, a total of 14,539,537 common shares were repurchased for $852 million at an average cost of $58.58 per share.

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, 2003, our Tier 1 and Total capital ratios were 9.7% and 12.8%, respectively (2002 — 9.3% and 12.7%, 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, 2003, our assets-to-capital multiple was 18.2 times (2002 — 17.3 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, 2003, were 8.7% and 12.0%, respectively (2002 — 8.5% and 11.9%, respectively).

NOTE 15 Income taxes

	2003	2002	2001
Income taxes in Consolidated statement of income			
Current			
Canada — Federal	**$ 726**	$ 681	$ 827
Provincial	**317**	265	354
International	**276**	155	103
	1,319	1,101	1,284
Deferred			
Canada — Federal	**88**	205	22
Provincial	**34**	70	3
International	**2**	39	41
	124	314	66
	1,443	1,415	1,350
Income taxes (recoveries) in Consolidated statement of changes in shareholders' equity			
Unrealized gains and losses on available for sale securities, net of hedging activities	**(101)**	(4)	221
Unrealized foreign currency translation gains and losses, net of hedging activities	**1,064**	100	(472)
Gains and losses on derivatives designated as cash flow hedges	**43**	30	(173)
Additional pension obligation	**(113)**	(155)	(12)
Issuance costs	**(3)**	—	(15)
Stock appreciation rights	**5**	22	—
	895	(7)	(451)
Total income taxes	**$ 2,338**	$1,408	$ 899

Deferred income taxes

	2003	2002
Deferred income tax asset (1)		
Allowance for credit losses	**$ 505**	$ 512
Deferred compensation	**338**	339
Pension related	**292**	210
Tax loss carryforwards	**35**	35
Deferred income	**166**	60
Other	**299**	259
	1,635	1,415
Valuation allowance	**(16)**	(13)
	1,619	1,402
Deferred income tax liability		
Premises and equipment	**(14)**	(9)
Deferred expense	**(289)**	(240)
Other	**(433)**	(150)
	(736)	(399)
Net deferred income tax asset	**$ 883**	$ 1,003

(1) We have determined that it is more likely than not that the deferred income tax asset net of the valuation allowance will be realized through a combination of future reversals of temporary differences and taxable income.

Reconciliation to statutory tax rate

	2003		2002		2001	
Income taxes at Canadian statutory tax rate	**$ 1,672**	**36.4%**	$ 1,702	38.5%	$ 1,615	41.5%
Increase (decrease) in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	**(204)**	**(4.4)**	(276)	(6.2)	(253)	(6.5)
Tax-exempt income from securities	**(19)**	**(.4)**	(7)	(.2)	(7)	(.2)
Tax rate change	**31**	**.7**	33	.7	79	2.0
Other	**(37)**	**(.9)**	(37)	(.8)	(84)	(2.1)
Income taxes reported in Consolidated statement of income/effective tax rate	**$ 1,443**	**31.4%**	$ 1,415	32.0%	$ 1,350	34.7%

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 $728 million as at October 31, 2003 (2002 — $841 million; 2001 — $772 million).

NOTE 16 Insurance operations

Insurance claims and policy benefit liabilities

	2003	2002
Claims liabilities	**$ 665**	$ 295
Future policy benefits liabilities	**7,965**	4,452
Insurance claims and policy benefit liabilities	**$ 8,630**	$ 4,747

The effects of changes in Insurance claims and policy benefit liabilities are included in the consolidated statement of income within Insurance policyholder benefits, claims and acquisition expense in the period in which the estimates are changed. For non-life short-duration contract liabilities carried at present value, the interest rates used for discounting range from 3% to 10%.

Reinsurance

In the ordinary course of business, our insurance operations reinsure risks to other insurance and reinsurance companies in order to provide greater diversification, limit loss exposure to large risks, and provide additional capacity for future growth. These ceding reinsurance arrangements do not relieve our insurance subsidiaries from their direct obligation to the insureds. We evaluate the financial condition of the reinsurers and monitor our concentrations of credit risks to minimize our exposure to losses from reinsurer insolvency.

Reinsurance amounts included in Non-interest income for the years ended October 31 are shown in the table below:

Net premiums

	2003	2002	2001
Gross premiums	**$ 2,562**	$ 2,065	$ 1,873
Ceded premiums	**(986)**	(501)	(454)
Net premiums	**$ 1,576**	$ 1,564	$ 1,419

Reinsurance recoverables

	2003	2002
Claims paid	**$ 356**	$ 426
Future policy benefits	**2,965**	1,520
Reinsurance recoverables	**$ 3,321**	$ 1,946

NOTE 17 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)	
	2003	2002	2003	2002
Change in fair value of plan assets (3),(4)				
Opening fair value of plan assets	**$ 3,747**	$ 4,049	**$ —**	$ 1
Actual return on plan assets	**415**	(133)	**—**	—
Company contributions	**670**	99	**27**	23
Plan participant contributions	**23**	19	**1**	1
Benefits paid	**(263)**	(258)	**(28)**	(25)
Plan settlements	**—**	(52)	**—**	—
Business acquisitions	**97**	—	**—**	—
Change in foreign currency exchange rate	**(32)**	17	**—**	—
Transfers from other plans	**—**	6	**—**	—
Closing fair value of plan assets	**$ 4,657**	$ 3,747	**$ —**	$ —
Change in benefit obligation (3)				
Opening benefit obligation	**$ 4,590**	$ 4,044	**$ 1,067**	$ 693
Service cost	**120**	113	**39**	22
Interest cost	**306**	297	**80**	51
Plan participant contributions	**23**	19	**1**	1
Actuarial loss	**443**	280	**214**	318
Benefits paid	**(263)**	(258)	**(28)**	(25)
Transfers from other plans	**—**	3	**—**	—
Plan amendments and curtailments	**—**	59	**1**	7
Business acquisitions	**123**	2	**18**	—
Change in foreign currency exchange rate	**(60)**	31	**(13)**	—
Closing benefit obligation	**$ 5,282**	$ 4,590	**$ 1,379**	$ 1,067
Funded status				
(Deficit) excess of plan assets over benefit obligation	**$ (625)**	$ (843)	**$ (1,379)**	$ (1,067)
Unrecognized net actuarial loss	**1,071**	792	**549**	360
Unrecognized transition (asset) obligation	**(19)**	(26)	**174**	190
Unrecognized prior service cost	**181**	211	**13**	13
Contributions between the measurement date and October 31	**25**	222	**2**	3
Other	**(1)**	(1)	**—**	1
Net amount recognized as at October 31	**$ 632**	$ 355	**$ (641)**	$ (500)
Amounts recognized in the Consolidated balance sheet consist of:				
Prepaid pension benefit cost	**$ 138**	$ 109		
Accrued pension benefit expense	**(451)**	(419)		
Intangible asset	**175**	205		
Accumulated other comprehensive income	**770**	460		
Net amount recognized as at October 31	**$ 632**	$ 355		
Weighted average assumptions				
Discount rate	**6.25%**	6.75%	**6.50%**	7.00%
Assumed long-term rate of return on plan assets	**7.00%**	7.00%	**—**	—
Rate of increase in future compensation	**4.40%**	4.40%	**4.40%**	4.40%

Pension benefit expense (5)

	2003	2002	2001

Service cost	**$ 120**	$ 113	$ 104
Interest cost	**306**	297	268
Expected return on plan assets	**(300)**	(300)	(306)
Amortization of transition asset	**(2)**	(2)	(2)
Amortization of prior service cost	**31**	32	17
Amortization of net actuarial loss(gain)	**15**	(27)	(45)
Settlement loss	**—**	52	—
Other	**—**	(45)	(14)
Defined benefit pension expense	**170**	120	22
Defined contribution pension expense	**67**	61	30
Pension benefit expense	**$ 237**	$ 181	$ 52

Other postretirement benefit expense (2)

	2003	2002	2001
Service cost	**$ 39**	$ 22	$ 64
Interest cost	**80**	51	49
Expected return on plan assets	**—**	—	(1)
Amortization of transition obligation	**17**	17	17
Amortization of net actuarial loss	**24**	—	—
Amortization of prior service cost	**1**	2	2
Other postretirement benefit expense	**$ 161**	$ 92	$ 131

2003 sensitivity of key assumptions

Pensions	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	**$ 179**	**$ 21**
Impact of .25% change in rate of increase in future compensation assumption	**22**	**5**
Impact of .25% change in the long-term rate of return on plan assets assumption	**—**	**11**

Postretirement	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	**$ 65**	**$ 8**
Impact of .25% change in rate of increase in future compensation assumption	**8**	**2**

(1) Included in these amounts are $4,328 million (2002 — $3,239 million) of plan assets and $4,991 million (2002 — $4,131 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 4.5% for dental, decreasing to an ultimate rate of 4.5% 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 $21 million and $182 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 $14 million and $143 million, respectively.

(3) For the 12-month period beginning October 1 to the measurement date September 30.

(4) Plan assets includes 525,342 (2002 — 818,597) of Royal Bank of Canada common shares having a fair value of $31 million (2002 — $43 million). In addition, dividends amounting to $1.1 million (2002 — $1 million) were received on Royal Bank of Canada common shares held in the plan assets during the year.

(5) Discount rate assumption of 6.75% (2002 — 7.00%; 2001 — 7.00%) was used to determine pension benefit expense.

NOTE 18 Stock-based compensation

Stock option plans

We have two stock option plans — one for certain key employees and one for non-employee directors. On November 19, 2002, the Board of Directors permanently discontinued all further grants of options under the Director Stock Option Plan. Under the employee 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 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. During the last quarter of 2002 and first quarter of 2003, certain executive participants voluntarily renounced their SARs while retaining the corresponding options.

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 $18 million for the year ended October 31, 2003 (2002 — $27 million; 2001 — $23 million).

Stock options

	2003		2002		2001	
	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	**28,479**	**$ 39.54**	30,158	$ 36.84	25,880	$ 33.61
Granted	**1,985**	**58.03**	4,215	49.12	7,949	44.46
Exercised — Common shares	**(5,303)**	**34.48**	(5,211)	32.07	(2,819)	28.77
— SARs	**(170)**	**37.35**	(291)	34.01	(259)	33.55
Cancelled	**(188)**	**47.55**	(392)	38.37	(593)	37.82
Outstanding at end of year	**24,803**	**$ 42.06**	28,479	$ 39.54	30,158	$ 36.84
Exercisable at end of year	**15,415**	**$ 38.24**	14,050	$ 36.07	12,895	$ 32.62
Available for grant	**14,309**		16,105		20,289	

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—$15.68	**349**	**$ 15.56**	**2.9**	**349**	**$ 15.56**
$24.80—$28.25	**1,673**	**26.13**	**6.0**	**1,673**	**26.13**
$30.00—$39.64	**11,450**	**36.66**	**6.1**	**9,866**	**37.20**
$43.59—$49.36	**9,354**	**49.14**	**8.4**	**3,513**	**49.11**
$50.00—$59.35	**1,977**	**57.92**	**10.0**	**14**	**50.71**
Total	**24,803**	**$ 42.06**	**7.3**	**15,415**	**$ 38.24**

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 have adopted the recommendations of FAS 123 prospectively for new awards granted after November 1, 2002. The fair value compensation expense recorded for the year ended October 31, 2003, in respect of these awards was $6 million.

We have provided pro forma disclosures, which demonstrate the effect as if we had adopted the recommended recognition provisions of FAS 123 in 2003, 2002 and 2001 for awards granted before 2003 as indicated below:

Pro forma net income and earnings per share

	As reported			Pro forma (1)		
	2003	2002	2001	2003	2002	2001
Net income	**$ 3,036**	$ 2,898	$ 2,435	**2,990**	$ 2,856	$ 2,399
Earnings per share	**4.48**	4.16	3.58	**4.41**	4.10	3.53
Diluted earnings per share	**4.43**	4.12	3.55	**4.37**	4.07	3.50

(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.

The fair value of options granted during 2003 was estimated on the date of grant using an option pricing model with the following assumptions: (i) risk-free interest rate of 4.61% (2002 — 4.89%; 2001 — 5.86%), (ii) expected option life of 6 years (2002 — 6 years, 2001 — 10 years), (iii) expected volatility of 20% (2002 — 20%; 2001 — 24%) and (iv) expected dividends of 2.95% (2002 — 2.9%; 2001 — 2.67%). The fair value of each option granted was $11.60 (2002 — $10.02; 2001 — $14.78).

NOTE 18 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 $55 million (2002 — $49 million; 2001 — $47 million), under the terms of these plans, towards the purchase of common shares. As at October 31, 2003, an aggregate of 17,544,654 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, 2003, was $105 million (2002 — $73 million; 2001 — $52 million). The share appreciation and dividend-related compensation expense recorded for the year ended October 31, 2003, in respect of these plans, was $16 million (2002 — $16 million; 2001 — $8 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 three 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, 2003, was $215 million (2002 — $187 million; 2001 — $128 million). The share appreciation and dividend-related compensation expense for the year ended October 31, 2003, in respect of this plan, was $22 million (2002 — $20 million; 2001 — $5 million recovery).

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, 2003, was $58 million (2002 — $34 million; 2001 — $14 million). The value of the various share units as at October 31, 2003, was $26 million (2002 — $10 million; 2001 — $4 million). The stock-based compensation expense recorded for the year ended October 31, 2003, in respect of these plans, was $30 million (2002 — $32 million; 2001 — $16 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 three 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. The value of common shares held as at October 31, 2003, was $102 million (2002 — $34 million; 2001 — nil). Compensation expense of $33 million (2002 — $11 million; 2001 — nil) was recognized for the year ended October 31, 2003, in respect of this award.

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, 2003, was $9 million (2002 — $16 million; 2001 — $21 million). The compensation expense recorded for the year ended October 31, 2003, in respect of this plan, was $5 million (2002 — $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 value of the RBC share units held under the plan as at October 31, 2003, was $111 million (2002 — $70 million; 2001 — $7 million). The compensation expense recorded for the year ended October 31, 2003, in respect of the matching contributions, was $10 million (2002 — $12 million; 2001 — $7 million).

On the acquisition of Dain Rauscher, certain key employees of Dain Rauscher were offered retention unit 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 liability under this plan was $100 million as at October 31, 2003 (2002 — $151 million; 2001 — $135 million). The compensation expense recorded for the year ended October 31, 2003, in respect of this plan was $95 million (2002 — $92 million; 2001 — $143 million).

For other stock-based plans, compensation expense of $8 million was recognized for the year ended October 31, 2003 (2002 — $19 million; 2001 — $14 million). The value of the share units and shares held under these plans as at October 31, 2003, was $13 million (2002 — $10 million; 2001 — $3 million).

NOTE 19 Earnings per share

	2003	2002	2001
Earnings per share			
Net income	**$ 3,036**	$ 2,898	$ 2,435
Preferred share dividends	**(68)**	(98)	(135)
Net income available to common shareholders	**$ 2,968**	$ 2,800	$ 2,300
Average number of common shares (in thousands)	**662,080**	672,571	641,516
	$ 4.48	$ 4.16	$ 3.58
Diluted earnings per share			
Net income available to common shareholders	**$ 2,968**	$ 2,800	$ 2,300
Effect of assumed conversions (1)	**—**	—	1
Net income adjusted for diluted computation	**$ 2,968**	$ 2,800	$ 2,301
Average number of common shares (in thousands)	**662,080**	672,571	641,516
Convertible Class B and C shares (1)	**—**	14	363
Stock options (2)	**7,545**	6,568	5,337
Average number of diluted common shares (in thousands)	**669,625**	679,153	647,216
	$ 4.43	$ 4.12	$ 3.55

(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 (2002 — nil; 2001 — 36,527) Class B shares and nil (2002 — 1,846,897; 2001 — 77,956) Class C shares for nil (2002 — 318,154; 2001 — 13,621) 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 25,205 with an exercise price of $59.35 (2002 — 9,761 at $53.76; 2001 — 7,862 at $50.72; 1,956 at $49.03) as the options' exercise price was greater than the average market price of our common shares.

NOTE 20 Guarantees, commitments and contingencies

Guarantees

In the normal course of business, we enter into numerous agreements that may contain features which meet the definition of a guarantee pursuant to FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 defines a guarantee to be a contract (including an indemnity) that contingently requires us to make payments (either in cash, financial instruments, other assets, shares of our stock or provision of services) to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of another third party to pay its indebtedness when due. The maximum potential amount of future payments represents the maximum risk of loss if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

The table below summarizes significant guarantees we have provided to third parties.

Maximum potential amount of future payments

	2003
Backstop liquidity facilities	**$22,162**
Credit derivatives/written put options (1)	**15,470**
Financial standby letters of credit/performance guarantees	**12,482**
Credit enhancements	**6,791**
Stable value products (1)	**3,251**

(1) The notional amount of the contract approximates maximum potential amount of future payments.

Backstop liquidity facilities are provided to asset-backed commercial paper conduit programs (programs) administered by us and third parties, as an alternative source of financing in the event that such programs are unable to access commercial paper markets, or in limited circumstances, when predetermined performance measures of the financial assets owned by these programs are not met. The liquidity facilities' term can range up to 1 year. The terms of the backstop liquidity facilities do not require us to advance money to these programs in the event of bankruptcy or to purchase non-performing or defaulted assets. None of the backstop liquidity facilities that we have provided have been drawn upon.

Our clients may enter into credit derivatives or written put options for speculative or hedging purposes. FIN 45 defines guarantees to include derivative contracts that contingently require us to make payments to a guaranteed party based on changes in an underlying that relate to an asset, liability or equity security of a guaranteed party. We have only disclosed amounts for transactions where it would be probable, based on the information available to us, that the client would use the credit derivative or written put option to protect against changes in an underlying that is related to an asset, a liability or an equity security held by the client. We enter into written credit derivatives that are over-the- counter contractual agreements to compensate another party, a corporate or government entity, for their financial loss following the occurrence of a credit event in relation to a specified reference obligation, such as a bond or loan. The term of these credit derivatives varies based on the contract and can range up to 15 years. We enter into written put options that are contractual agreements under which we grant the purchaser, a corporate or government entity, the right, but not the obligation to sell, by or at a set date, a specified amount of a financial instrument at a predetermined price. Written put options that typically qualify as guarantees include foreign exchange contracts, equity based contracts, and certain commodity based contracts. The term of these options varies based on the contract and can range up to 5 years.

Financial standby letters of credit and performance guarantees represent irrevocable assurances that we will make payments in the event that a client cannot meet its obligations to third parties. The term of these guarantees can range up to 8 years. 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. The carrying value includes amounts representing deferred revenue to be recognized in income over the life of the contract.

NOTE 20 Guarantees, commitments and contingencies (continued)

We provide partial credit enhancement to multi-seller programs administered by us to protect commercial paper investors in the event that the third-party credit enhancement supporting the various 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. The term of these credit facilities is between 1 and 4 years.

We sell stable value products that offer book value protection primarily to plan sponsors of ERISA-governed pension plans such as 401(k) plans, 457 plans, etc. The book value protection is provided on portfolios of intermediate/short-term investment grade fixed income securities and is intended to cover any shortfall in the event that plan participants withdraw funds when market value is below book value. We retain the option to exit the contract at any time.

Through our various agreements with investors, we may be required to repurchase U.S. originated mortgage loans sold to an investor if the loans are uninsured for greater than one year, or refund any premium received where mortgage loans are prepaid or in default within 120 days. The mortgage loans are fully collateralized by residential properties.

At October 31, 2003, we have accrued $149 million in our Consolidated balance sheet in respect to the above guarantees.

In the normal course of our operations, we provide indemnifications which are often standard contractual terms to counterparties in transactions such as purchase and sale contracts, service agreements, director/officer contracts and leasing transactions. These indemnification agreements may require us to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract. The nature of the indemnification agreements prevents us from making a reasonable estimate of the maximum potential amount we could be required to pay to counterparties. Historically, we have not made any significant payments under such indemnifications. No amount has been accrued in the Consolidated balance sheet with respect to these indemnification agreements.

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.

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

	2003	2002
Documentary and commercial letters of credit	**$ 2,014**	$ 772
Securities lending	**17,520**	23,967
Commitments to extend credit		
Original term to maturity of 1 year or less	**40,432**	40,931
Original term to maturity of more than 1 year	**28,182**	34,115
Uncommitted amounts	**59,801**	45,978
Note issuance/revolving underwriting facilities	**24**	23
	$147,973	$145,786

Lease commitments

Minimum future rental commitments for premises and equipment under long-term non-cancellable operating and capital leases for the next five years and thereafter are shown below.

Lease commitments

2004	$ 388
2005	355
2006	310
2007	260
2008	224
Thereafter	681
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 total return swap. At present, both the New York and the London actions are proceeding.

In October 2003, we received a settlement valued at approximately US$195 million plus interest, which was in accordance with the terms of a settlement agreement reached with Enron Corporation, the Enron Creditors' Committee and Rabobank. The settlement received has reduced the amount owing by Rabobank to US$322 million plus interest but will not otherwise affect the ongoing litigation with Rabobank. Management expects to recover the amount owing from Rabobank 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. Management considers that the aggregate liability resulting from these proceedings will not be material.

Pledged assets

Details of assets pledged against liabilities, including amounts that cannot be sold or repledged by the secured party, are shown in the following table:

Pledged assets

	2003	2002
Assets pledged to:		
Foreign governments and central banks	**$ 1,220**	$ 1,418
Clearing systems, payment systems and depositories	**1,055**	1,075
Assets pledged in relation to:		
Derivative transactions	**2,415**	1,828
Securities borrowing and lending	**29,377**	19,720
Obligations related to securities sold under repurchase agreements	**23,735**	21,109
Other	**2,575**	3,389
Total	**$60,377**	$48,539

Collateral

At October 31, 2003, the approximate market value of collateral accepted that may be sold or repledged by us was $63.1 billion (2002 — $55.9 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions.

Of this amount, $40.4 billion (2002 — $36.4 billion) has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

NOTE 21 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

Interest rate derivatives

Interest rate futures and forwards (forward rate agreements) are contractual obligations to buy or sell an interest-rate sensitive 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 with respect to amount and settlement dates, and are traded on regulated exchanges.

Interest rate swaps are over-the-counter contracts in which two counterparties exchange interest payments based on rates applied to a notional amount.

Interest rate 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 an interest-rate sensitive financial instrument at a predetermined price or to receive the cash settlement value of such right. The seller receives the premium from the purchaser for this right.

Foreign exchange derivatives

Foreign exchange forwards are contractual obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement at a predetermined future date. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized with respect to amount and settlement dates, and are traded on regulated exchanges.

Cross currency swaps involve the exchange of fixed payments in one currency for the receipt of fixed payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Foreign currency 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 quantity of one foreign currency in exchange for another at a predetermined price or to receive the cash settlement value of such right. The seller receives the premium from the purchaser for this right.

Credit derivatives

Credit derivatives are over-the-counter contracts that transfer credit risk related to an underlying financial instrument (referenced asset) from one counterparty to another. Examples of credit derivatives include credit default swaps, credit default baskets and total return swaps.

Credit default swaps provide protection against the decline in value of the referenced asset as a result of credit events such as default or bankruptcy. It is similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap in return for payment related to the deterioration in the value of the referenced asset. Credit default baskets are similar to credit default swaps except that the underlying referenced financial instrument is a group of assets instead of a single asset.

Total return swaps are contracts where one counterparty agrees to pay or receive from the other cash flows based on changes in the value of the referenced asset.

Equity derivatives

Equity index futures and forwards are contractual obligations to buy or sell a fixed value (the contracted price) of an equity index, a basket of stocks or a single stock at a specified future date. Forward contracts are effectively tailor-made agreements that are transacted between counter-parties in the over-the-counter market, whereas futures are standardized with respect to amount and settlement dates, and are traded on regulated exchanges.

Equity swaps are over-the-counter contracts in which one counter-party agrees to pay or receive from the other cash flows based on changes in the value of an equity index, a basket of stocks or a single stock.

Equity 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 quantity of an underlying equity index, a basket of stocks or a single stock at a predetermined price or to receive the cash settlement value of such right. The seller receives the premium from the purchaser for this right.

Other derivative products

We also transact in other derivative products including precious metal and commodity derivative contracts in both the over-the-counter and exchange markets.

NOTE 21 Derivative financial instruments (continued)

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. We manage our exposure to foreign currency risk with cross currency swaps and foreign exchange forward contracts. We use credit derivatives to manage our credit exposures and for risk diversification in our lending portfolio.

Certain derivatives are specifically designated and qualify for hedge accounting. The purpose of hedge accounting is to minimize significant unplanned fluctuations in earnings and cash flows caused by changes in interest rates or exchange rates. Interest rate and currency fluctuations will either cause assets and liabilities to appreciate or depreciate in market value or cause variability in cash flows. In a fair value hedge, gains or losses on derivatives will substantially offset the unrealized appreciation or depreciation on the hedged asset or liability. In a cash flow hedge, derivatives linked to the assets and liabilities will reduce the variability of cash flows. In a hedge of the net investment of foreign subsidiaries, derivatives will mitigate foreign exchange gains and losses on currency translation.

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, changes in fair value are reflected in Non-interest income.

Fair value hedge

For the year ended October 31, 2003, the ineffective portions recognized in Non-interest income amounted to a net unrealized gain of $9 million (2002 — $10 million). 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, 2003.

Cash flow hedge

For the year ended October 31, 2003, a net unrealized loss of $57 million (2002 — $50 million) 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 interest income in the periods in which Net interest income is affected by the variability in cash flows of the hedged item. A net loss of $80 million (2002 — $113 million) was reclassified to Net income during the year. A net loss of $40 million (2002 —$59 million) deferred in Accumulated other comprehensive income as at October 31, 2003, is expected to be reclassified to Net income during the next 12 months.

For the year ended October 31, 2003, a net unrealized gain of $43 million (2002 — $9 million) was recognized in Non-interest income 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, 2003.

Hedges of net investments in foreign operations

For the year ended October 31, 2003, we experienced foreign currency losses of $2,988 (2002 — $59 million) related to our net investments in foreign operations, which were offset by gains of $2,149 (2002 —$43 million) related to derivative and non-derivative instruments designated as hedges of this currency exposure. The net foreign currency gains (losses) are recorded as a component of Other comprehensive income.

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 counterparty defaults, we have the right to terminate all transactions covered by the master netting 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 branches are netted, generating a single payment in each currency, due either by us or the counterparty. 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. The replacement cost of our derivatives before and after factoring in the impact of master netting agreements is $37 billion and $13 billion, respectively (2002 — $31 billion and $11 billion) at October 31, 2003. These amounts exclude exchange-traded instruments that are subject to daily margin requirements as they are deemed to have no additional credit risk.

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 is a significant credit mitigation technique for managing bank and broker-dealer 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. During 2003 and 2002, neither our actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

NOTE 22 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.

	2003									2002								
	Canada	%	United States	%	Europe	%	Other International	%	Total	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets (1)	**$157,838**	**73%**	**$30,872**	**14%**	**$21,930**	**10%**	**$ 4,139**	**3%**	**$214,779**	$158,059	73%	$32,450	15%	$18,917	9%	$ 5,979	3%	$215,405
Off-balance sheet credit instruments (2)																		
Committed and uncommitted (3)	**$ 59,353**	**46%**	**$41,949**	**33%**	**$22,845**	**18%**	**$ 4,268**	**3%**	**$128,415**	$ 60,397	50%	$45,573	38%	$13,863	11%	$ 1,191	1%	$121,024
Other	**18,449**	**50**	**14,791**	**40**	**3,704**	**10**	**156**	**—**	**37,100**	23,266	61	10,723	28	4,235	11	148	—	38,372
Derivatives before master netting agreement (4), (5), (6)	**$ 7,732**	**21%**	**$10,081**	**27%**	**$17,462**	**48%**	**$ 1,412**	**4%**	**$ 36,687**	$ 7,734	25%	$ 9,887	31%	$12,232	39%	$ 1,598	5%	$ 31,451
	$ 85,534	**42%**	**$66,821**	**33%**	**$44,011**	**22%**	**$ 5,836**	**3%**	**$202,202**	$ 91,397	46%	$66,183	33%	$30,330	15%	$ 2,937	6%	$190,847

(1) Includes assets purchased under reverse repurchase agreements, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 38% (2002 — 38%) and British Columbia at 11% (2002 — 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 of 39% (2002 — 35%), government of 16% (2002 — 9%), mining and energy of 12% (2002 — 15%), transportation of 6% (2002 — 8%) and manufacturing of 3% (2002 — 8%).

(4) The largest concentration by counterparty type of this credit risk exposure is with banks at 66% (2002 — 68%).

(5) Represents the total current replacement cost 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 these instruments at October 31, 2003, is $82 million (2002 — $194 million).

(6) The replacement cost of $92 million (2002 — $93 million) of derivatives embedded in financial instruments, certain warrants and loan commitments disclosed as derivatives and recorded at fair value, are excluded from the amounts in this table.

NOTE 23 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. Therefore, 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

	2003			2002		
	Book value	Fair value	Difference	Book value	Fair value	Difference

Financial assets						
Cash resources	**$ 17,520**	**$ 17,520**	**$ —**	$ 21,293	$ 21,293	$ —
Securities	**116,797**	**116,797**	**—**	95,353	95,353	—
Assets purchased under reverse repurchase agreements	**36,289**	**36,289**	**—**	35,831	35,831	—
Loans	**170,492**	**172,306**	**1,814**	169,320	171,546	2,226
Derivative assets (1)	**36,473**	**36,473**	**—**	31,726	31,726	—
Other assets	**27,008**	**27,008**	**—**	20,497	20,947	—
Financial liabilities						
Deposits	**260,518**	**261,834**	**(1,316)**	245,040	246,515	(1,475)
Acceptances	**5,943**	**5,943**	**—**	8,051	8,051	—
Obligations related to securities sold short	**22,743**	**22,743**	**—**	17,990	17,990	—
Obligations related to assets sold under repurchase agreements	**23,735**	**23,735**	**—**	21,109	21,109	—
Derivative liabilities (1)	**38,276**	**38,276**	**—**	33,052	33,052	—
Other liabilities	**33,861**	**33,861**	**—**	28,970	28,970	—
Subordinated debentures	**6,581**	**6,587**	**(6)**	6,960	6,935	25

(1) Includes derivatives embedded in financial instruments, certain warrants and loan commitments that are disclosed as derivatives and are recorded at fair value.

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NOTE 23 Estimated fair value of financial instruments (continued)

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.

Derivative financial instruments The fair value of derivatives is equal to the book value. The fair values 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, incorporating primarily observable market data.

Other assets/liabilities The carrying values of Other assets and Other liabilities approximate their fair values.

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.

NOTE 24 Subsequent events

The following significant events occurred subsequent to October 31, 2003, and prior to the issuance of our 2003 consolidated financial statements.

Issue of subordinated debentures

On November 3, 2003, we issued $1 billion of subordinated debentures through our Canadian Medium Term Note Program.

The debentures bear interest at a fixed rate of 5.45% per annum, paid semi-annually until November 4, 2013, and at a three-month Bankers' Acceptance rate plus 1.00%, paid quarterly thereafter until their maturity on November 4, 2018.

We may, at our option, with the prior approval of the Superintendent of Financial Institutions Canada, redeem the debentures in whole at any time, or in part from time to time, on not less than 30 days' and not more than 60 days' notice to the registered holders. If the debentures are redeemed prior to November 4, 2013, the Redemption Price will be the greater of the Canada Yield Price and par. The debentures are redeemable on and after November 4, 2013, at par. The Canada Yield Price is the price that would provide a yield from the Redemption date to November 4, 2013, equal to 14 basis points plus the yield which a non-callable issue of Government of Canada bonds would carry from the Redemption date to November 4, 2013.

Acquisition of the Canadian operation of Provident Life and Accident Insurance Company

On November 18, 2003, RBC Insurance announced the acquisition of the Canadian operation of Provident Life and Accident Insurance Company (PLAIC), a wholly owned subsidiary of UnumProvident Corporation. As part of the acquisition, RBC Insurance will assume PLAIC's policy liabilities and may invest up to $500 million to complete the acquisition.

The acquisition is expected to close by March 2004 and is subject to approval by Canadian regulators.

Acquisition of Provident Financial Group Inc.

On November 21, 2003, RBC Centura Banks, Inc., acquired the operations of Cincinnati, Ohio—based Provident Financial Group Inc. (Provident). The operations include all of Provident's operations in Florida, comprising 13 branches serving areas of Western Florida. The purchase consideration comprises US$80 million cash and the assumption of net tangible liabilities valued at approximately US$22 million. This amount represents total excess consideration of approximately US$102 million and will be allocated to core deposit intangibles and goodwill of approximately US$14 million and US$88 million, respectively.

Quarterly highlights

(C$ millions, except per share and percentage amounts)	2003 Q4	2003 Q3	2003 Q2	2003 Q1	2002 Q4	2002 Q3	2002 Q2	2002 Q1
Consolidated statement of income								
Net interest income	**$ 1,616**	**$ 1,658**	**$ 1,638**	**$ 1,736**	$ 1,743	$ 1,706	$ 1,670	$ 1,809
Non-interest income	**2,633**	**2,644**	**2,423**	**2,599**	2,523	2,491	2,623	2,495
Provision for credit losses	**(137)**	**(167)**	**(211)**	**(200)**	(235)	(216)	(328)	(286)
Insurance policy holder benefits, claims and acquisition expense	**(386)**	**(335)**	**(312)**	**(371)**	(355)	(336)	(381)	(258)
Non-interest expense	**(2,582)**	**(2,581)**	**(2,514)**	**(2,559)**	(2,601)	(2,515)	(2,519)	(2,609)
Income taxes	**(316)**	**(413)**	**(304)**	**(410)**	(315)	(381)	(329)	(390)
Non-controlling interest	**(24)**	**(30)**	**(31)**	**(28)**	(28)	(27)	(26)	(27)
Net income	**$ 804**	**$ 776**	**$ 689**	**$ 767**	$ 732	$ 722	$ 710	$ 734
Earnings per share (1)								
Basic	**$ 1.21**	**$ 1.16**	**$ 1.00**	**$ 1.12**	$ 1.06	$ 1.04	$ 1.02	$ 1.05
Diluted	**1.19**	**1.14**	**0.99**	**1.10**	1.05	1.02	1.01	1.04
Performance ratios								
Return on common equity	**18.0%**	**17.4%**	**15.4%**	**16.9%**	16.3%	16.1%	16.8%	17.1%
Return on assets	**.78**	**.77**	**.71**	**.77**	.76	.78	.78	.79
Return on assets after preferred dividends	**.77**	**.75**	**.68**	**.74**	.73	.75	.76	.77
Net interest margin (2)	**1.58**	**1.63**	**1.68**	**1.73**	1.81	1.84	1.85	1.96
Non-interest income as a % of total revenues	**62.0**	**61.5**	**59.7**	**60.0**	59.1	59.4	61.1	58.0
Consolidated balance sheet								
Assets								
Cash resources and securities	**$ 134,317**	**$ 129,667**	**$ 126,461**	**$ 119,892**	$ 116,646	$ 111,203	$ 110,105	$ 103,920
Assets purchased under reverse repurchase agreements	**36,289**	**41,868**	**37,087**	**37,874**	35,831	34,938	33,373	30,503
Residential mortgage loans	**78,819**	**77,201**	**74,431**	**73,417**	72,842	70,641	70,118	69,438
Personal loans	**34,003**	**33,171**	**32,451**	**31,956**	31,956	32,222	32,292	31,600
Credit card loans	**4,816**	**5,625**	**5,327**	**5,214**	4,914	4,774	4,445	4,338
Business and government loans	**54,909**	**57,242**	**57,908**	**60,020**	61,811	64,187	63,602	64,285
Allowance for loan losses	**(2,055)**	**(2,156)**	**(2,226)**	**(2,267)**	(2,203)	(2,218)	(2,338)	(2,345)
Other assets	**71,493**	**66,786**	**66,812**	**66,190**	60,203	61,864	49,732	56,745
	$ 412,591	**$ 409,404**	**$ 398,251**	**$ 392,296**	$ 382,000	$ 377,611	$ 361,329	$ 358,484
Liabilities and shareholders' equity								
Deposits — Canada	**$ 154,523**	**$ 153,928**	**$ 148,156**	**$ 141,767**	$ 142,959	$ 138,801	$ 139,125	$ 139,862
Deposits — International	**105,995**	**103,805**	**103,410**	**106,864**	102,081	107,239	98,626	96,410
Other liabilities	**125,901**	**125,013**	**119,298**	**116,068**	109,776	103,866	96,263	95,119
Subordinated debentures	**6,581**	**6,780**	**6,828**	**6,885**	6,960	7,318	7,245	7,340
Non-controlling interest in subsidiaries	**1,474**	**1,454**	**1,475**	**1,445**	1,469	1,444	1,466	1,440
Total equity	**18,117**	**18,424**	**19,084**	**19,267**	18,755	18,943	18,604	18,313
	$ 412,591	**$ 409,404**	**$ 398,251**	**$ 392,296**	$ 382,000	$ 377,611	$ 361,329	$ 358,484
Selected average balances and off-balance sheet data								
Averages (3)								
Assets	**$ 406,500**	**$ 402,400**	**$ 399,700**	**$ 397,400**	$ 382,300	$ 367,500	$ 371,200	$ 366,500
Loans and acceptances	**178,924**	**176,070**	**177,609**	**178,444**	178,004	175,364	177,438	179,128
Deposits	**252,314**	**251,506**	**248,709**	**254,112**	248,828	238,647	239,470	242,013
Common equity	**17,454**	**17,475**	**17,697**	**17,512**	17,223	17,139	16,770	16,459
Total equity	**18,271**	**18,453**	**19,184**	**19,026**	18,855	18,800	18,445	18,210
Assets under administration	**1,483,900**	**1,444,000**	**1,368,200**	**1,434,200**	1,365,900	1,413,100	1,442,800	1,426,600
Assets under management	**88,900**	**89,200**	**88,700**	**91,600**	90,800	94,200	96,200	103,300
Provision for credit losses								
Allocated specific	**$ 137**	**$ 167**	**$ 211**	**$ 200**	$ 235	$ 216	$ 328	$ 286
Allocated general	**7**	**(5)**	**2**	**2**	(15)	4	—	(11)
Total allocated	**144**	**162**	**213**	**202**	220	220	328	275
Unallocated	**(7)**	**5**	**(2)**	**(2)**	15	(4)	—	11
Total	**$ 137**	**$ 167**	**$ 211**	**$ 200**	$ 235	$ 216	$ 328	$ 286
Nonaccrual loans as a % of loans and acceptances	**98%**	**1.06%**	**1.22%**	**1.33%**	1.27%	1.32%	1.41%	1.52%
Capital ratios (Canadian basis)								
Common equity/risk-adjusted assets	**10.5%**	**10.4%**	**10.6%**	**10.6%**	10.4%	10.2%	10.0%	9.8%
Tier 1	**9.7**	**9.6**	**9.6**	**9.4**	9.3	9.1	9.0	8.8
Total	**12.8**	**12.7**	**12.8**	**12.7**	12.7	12.7	12.6	12.3
Capital ratios (U.S. basis)								
Common equity/risk-adjusted assets	**10.3%**	**10.4%**	**10.7%**	**10.6%**	10.5%	10.3%	10.0%	9.8%
Tier 1	**8.7**	**8.9**	**8.9**	**8.8**	8.5	8.5	8.4	8.1
Total	**12.0**	**12.1**	**12.2**	**12.1**	11.9	12.0	11.9	11.6
Common share information								
Shares outstanding (in thousands)								
End of period	**656,021**	**658,612**	**662,427**	**666,439**	665,257	671,671	673,860	673,596
Average basic	**656,952**	**660,810**	**664,634**	**666,006**	668,868	673,787	673,751	674,465
Average diluted	**664,450**	**668,133**	**671,991**	**674,035**	676,010	680,712	680,336	679,729
Dividends per share	**$ .46**	**$ .43**	**$ .43**	**$ .40**	$ .40	$ .38	$ .38	$ .36
Book value per share	**26.38**	**26.73**	**26.59**	**26.66**	25.91	25.71	25.13	24.70
Common share price — High (4)	**65.00**	**61.64**	**59.91**	**59.86**	57.55	58.89	57.07	52.45
Low (4)	**57.50**	**56.75**	**53.26**	**53.91**	48.80	45.05	46.36	46.81
Close	**63.48**	**58.90**	**59.80**	**55.30**	54.41	53.45	54.97	50.00

Dividend yield	**3.0%**	**2.9%**	**3.0%**	**2.8%**	3.0%	2.9%	2.9%	2.9%
Dividend payout ratio	**38%**	**37%**	**43%**	**36%**	38%	37%	37%	34%

(1) Earnings per share for the year may not equal the sum of the quarters.

(2) Net interest income as a percentage of average assets.

(3) Based on methods intended to approximate the average of the daily balances for the period.

(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 within the meaning of certain securities laws, 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. These forward-looking statements include, among others, statements with respect to our objectives for 2004, 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; the effects of competition in the markets in which we operate; inflation; judicial decisions; 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; judicial or regulatory proceedings; 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 us or on our behalf.

Management's discussion and analysis

This portion of the Annual Report provides a discussion and analysis of our financial condition and results of operations so as to enable a reader to assess material changes in financial condition and results of operations for the 12 months ended October 31, 2003, compared to those of the 12 months ended October 31, 2002. The consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP) are on pages 67A to 102A.

In the fourth quarter of 2003, we changed the presentation of revenues and expenses of RBC Insurance and Royal Bank of Canada, without any effect on net income, to provide additional disclosures, which, we believe, make our disclosure more consistent with disclosure practices in the insurance industry. All comparative information has been appropriately reclassified. Total insurance revenues are now reported in non-interest income as insurance premiums, investment and fee income. Previously they had been reported in net interest income and in several lines of non-interest income, the largest of which was insurance revenues. The costs associated with generating these revenues are now captured in insurance policyholder benefits, claims and acquisition expense, whereas previously they were netted against the insurance revenues line in non-interest income. The administrative costs of RBC Insurance continue to be reported in non-interest expense. The table on page 30A provides a further breakout of these lines, and the accounting policies related to our insurance operations are contained in Note 1 to the consolidated financial statements on page 75A.

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 and diluted earnings per share (EPS)

(C$ millions, except per share and percentage amounts)	% change	2003	2002
Net income	9%	**$ 3,005**	$ 2,762
EPS	12%	**$ 4.39**	$ 3.93

As shown in the table above, net income in 2003 increased $243 million or 9% over 2002 despite a $60 million decline in net income due to the strengthening of the Canadian dollar relative to the U.S. dollar, which resulted in a lower translated value of U.S. dollar-denominated earnings. The Canadian dollar appreciated 9% relative to the U.S. dollar, averaging US$.697 in 2003 compared to US$.637 in 2002. The movement of the Canadian dollar compared to currencies other than the U.S. dollar had a minimal impact on the change in our earnings compared to a year ago.

The higher net income in 2003 predominantly reflected a reduction in the provision for credit losses of approximately $220 million after-tax.

Diluted earnings per share were $4.39, up $.46 or 12% from a year ago, with approximately $.04 of the increase due to a reduction in the number of common shares outstanding, primarily as a result of the repurchase of common shares, which is discussed on page 59A. The stronger Canadian dollar reduced diluted earnings per share by $.09 in 2003.

As shown in Table 2 below, our 2003 revenues continue to be diversified, with revenues from outside Canada totalling $6.9 billion or 39% of revenues, including U.S. revenues of $4.8 billion or 28% of total revenues.

Canadian net income declined by $32 million or 2%, reflecting lower earnings from the domestic capital markets operations. U.S. net income increased by $238 million or 155%, largely due to stronger performance from RBC Dain Rauscher's full-service brokerage and fixed income businesses and a $45 million after-tax decline in retention compensation costs, as well as a significantly lower provision for credit losses related to our business and government loan portfolio. Other international net income was up $37 million or 7% from 2002, reflecting higher earnings from the international reinsurance business.

TABLE 2 Earnings by geographic segment

	2003				2002			
(C$ millions)	Canada	United States	Other International	Total	Canada	United States	Other International	Total
Net interest income	**$ 5,186**	**$ 1,188**	**$ 268**	**$ 6,642**	$ 5,472	$ 1,106	$ 357	$ 6,935
Non-interest income	**5,382**	**3,618**	**1,776**	**10,776**	4,969	3,682	1,669	10,320
Total revenues	**10,568**	**4,806**	**2,044**	**17,418**	10,441	4,788	2,026	17,255
Provision for credit losses	**527**	**106**	**88**	**721**	529	440	96	1,065
Insurance policy holder benefits, claims and acquisition expense	**679**	**580**	**437**	**1,696**	498	502	535	1,535
Non-interest expense	**5,992**	**3,511**	**906**	**10,409**	5,920	3,676	824	10,420
Income taxes (1)	**1,316**	**217**	**54**	**1,587**	1,408	16	49	1,473
Net income	**$ 2,054**	**$ 392**	**$ 559**	**$ 3,005**	$ 2,086	$ 154	$ 522	$ 2,762

(1) Includes non-controlling interest in net income of subsidiaries.

Outlook

We are targeting growth in diluted earnings per share of 10–15% and a return on common equity of 17–19% in fiscal 2004 based on the expectations that our cost management and revenue enhancement efforts will allow expenses to grow at a lower rate than revenues and that business and capital market conditions will continue to improve in 2004.

Financial priorities

Revenue growth and diversification

In 2003, total revenues were up $163 million or 1% from a year ago, despite a $510 million decline in the translated value of U.S. dollar-denominated revenues due to the significant appreciation of the Canadian dollar relative to the U.S. dollar. The increase in revenues largely reflects higher insurance premiums, investment and fee income, and higher trading revenues in 2003. A detailed discussion follows on pages 38A to 41A.

Cost control

Non-interest expense was $11 million lower in 2003. While the stronger Canadian dollar relative to the U.S. dollar reduced the translated value of non-interest expense by $340 million, there were increases in pension and other postretirement benefit costs, costs related to further automating our retail banking technology infrastructure and expanding our retail sales force, and costs related to companies we acquired during the year. A full discussion is provided on pages 42A to 44A.

Strong credit quality

Provisions for credit losses declined by $344 million or 32% and gross impaired loans by $543 million or 24% this year due to a significant improvement in the quality of our corporate loan portfolio. Detailed discussion and tables can be found on pages 45A to 52A.

Balance sheet and capital management

Total assets were $403.0 billion at October 31, 2003, up $26.1 billion or 7% from October 31, 2002. At October 31, 2003, using Superintendent of Financial Institutions Canada (OSFI) guidelines and Canadian GAAP financial information, our Tier 1 capital ratio was 9.7% versus 9.3% at October 31, 2002, while the Total capital ratio was 12.8% versus 12.7%. Both ratios were above our medium-term (three- to five-year) capital goals of 8–8.5% 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's 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 downturn in the equity markets could cause a 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.

Bond and money market expectations about inflation and central bank monetary policy decisions have an impact on the level of interest rates, which can have an impact on earnings. Our policy for the non-trading balance sheet is to manage the interest rate risk to a target level. We have defined this target level as a risk neutral balance sheet where the interest rate exposures of most assets and liabilities are matched, with the residual assets representing a notional investment of equity spread evenly across a term of 60 months. As a result, our interest rate risk profile has slightly faster repricing of assets than liabilities. Consequently, a decline in interest rates would tend to reduce the net interest income earned on our non-trading portfolio as shorter-term assets reprice and to increase the value of our longer-term assets. Conversely, an increase in interest rates would result in an increase in the net interest income and a decrease in the value of our longer-term assets. 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 our trading business, 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 and attributes of products or services, and actions taken by competitors. 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 what we believe to be reasonable measures designed 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 judgment or decision that results in fines, damages and other costs that would have a negative impact on our earnings.

Failure to obtain accurate and complete information from or on behalf of customers and counterparties could adversely impact our results.

When deciding to extend credit or enter into other transactions with customers and counterparties, we may rely on information provided to us by or on behalf of customers and counterparties, including audited financial statements and other financial information. We also may rely on representations of customers and counterparties as to the completeness and accuracy of that information. Our financial condition could be adversely impacted if the financial statements on which we rely do not comply with generally accepted accounting principles (GAAP) or are materially misleading, and if customers or counterparties default on amounts owing to us.

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 adding to these original building blocks through additional strategic acquisitions, branch openings, greater market penetration, new product and service offerings, heightened marketing and sales initiatives, and more client referrals between the companies operating in our different business lines. It 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. While results to date have generally met 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, and there can be no assurance that we will always succeed in doing so.

The accounting policies and methods we utilize determine how we report our financial condition and results of operations, and they may require management to make estimates or rely on assumptions about matters that are inherently uncertain.

Our financial condition and results of operations are reported using accounting policies and methods prescribed by GAAP. In certain cases, GAAP allows accounting policies and methods to be selected from two or more alternatives, any of which might be reasonable, yet result in our reporting materially different amounts.

Management exercises judgment in selecting and applying our accounting policies and methods to ensure that, while GAAP compliant, they reflect our best judgment of the most appropriate manner in which to record and report our financial condition and results of operations. Significant accounting policies to the consolidated financial statements are described on pages 72A to 76A.

As detailed on pages 25A to 26A, two accounting policies have been identified as being "critical" to the presentation of our financial condition and results of operations as they (1) require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and (2) carry the likelihood that materially different amounts could be reported under different conditions or using different assumptions and estimates. These critical accounting policies relate to adequacy of our allowance for credit losses and the determination of the fair value of certain of our financial instruments.

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 changes in consumer spending and saving habits, and our anticipation of and success in managing the associated risks.

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 affect 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 us, or on our behalf.

Critical accounting policies

Application of critical accounting policies

Our significant accounting policies are contained in Note 1 to the consolidated financial statements on pages 72A to 76A. Certain of these policies are recognized as critical accounting policies because they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. Our critical accounting policies relate to the allowance for credit losses and the fair value of certain financial instruments. They have been reviewed and approved by our Audit Committee, in consultation with management, as part of their review and approval of our significant accounting policies.

Allowance for credit losses

The allowance for credit losses of $2,164 million reflects management's estimate of probable losses in our loan and off-balance sheet portfolios at October 31, 2003. This comprises a specific allowance of $757 million and a general allowance of $1,407 million as outlined in Note 6 on page 82A. Provisions for credit losses, which are charged to the income statement, increase the allowance, while write-offs net of any recoveries reduce the allowance. We determine and maintain the allowance based on a comprehensive and systematic review of our lending and off-balance sheet portfolios. As outlined in Note 1 on page 73A, the allowance is determined based on management's identification and evaluation of problem accounts and estimation of probable losses that may exist in the remaining portfolio.

Specific allowance — This is maintained to absorb losses relating to both specifically identified borrowers and pools of homogeneous loans that include loans that have been recognized as impaired. The losses relating to identified large business and government debtors are estimated on an account-by-account basis based on the present value of expected cash flows. Management's judgment is required when forecasting the amount and timing of future cash flows, determining the fair value of any underlying security, estimating the costs of realization, assessing observable market prices, and determining expectations about future prospects of the borrower and any guarantors on loans specifically identified as impaired. The losses relating to other portfolio-type products, excluding credit cards, which are directly written off after 180 days in arrears, are estimated based on the 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.

General allocated allowance — The general allocated allowance, which is reviewed on a quarterly basis, represents our best estimate of probable loan losses that have been incurred within the portfolio on loans not yet specifically identified as impaired. The size of this allowance is dependent largely on the quality of the portfolio and economic conditions.

The methodology we employ to determine the general allocated allowance for business and government loans is supported by several parameters, such as the expected default frequencies associated with each borrower's risk rating, loss in the event of default and exposure at default. These parameters, which allow us to generate a range of probable credit losses within the portfolio, are based on historical experience and are supported by external data. Management judgment and other supporting factors are then applied to determine the general allocated allowance within the range of probable credit losses. An adverse change in any of the above parameters would affect the range of probable credit losses derived and may have a similarly adverse impact on our general allocated allowance, while a favourable change may have a similarly corresponding impact. For more homogeneous loans, probable losses are estimated based upon historical migration and write-off rates we have experienced on each portfolio. Management uses this information in conjunction with its assessment of portfolio credit quality and economic and business conditions to determine the level of the general allocated allowance.

General unallocated allowance —The general unallocated allowance, also reviewed on a quarterly basis, reflects the subjective and judgmental elements involved in our determination of credit risk and the resulting loss estimates, and is an estimate of probable credit losses that have not been captured as part of the specific and general allocated allowance. In determining the general unallocated allowance, management considers regulatory requirements, recent loan loss experience and trends in credit quality and concentration as well as any inherent model imprecision.

Fair value of financial instruments

In accordance with Canadian GAAP, certain financial instruments are carried on our balance sheet at their fair value. These financial instruments comprise assets held in our trading portfolio, obligations related to securities sold short and derivative financial instruments (excluding non-trading derivatives subject to hedge accounting). At October 31, 2003, approximately $117 billion of our financial assets and $61 billion of our financial liabilities were carried at fair value. Fair value is defined as the amount at which an instrument could be bought or sold in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of the majority of the financial instruments in our portfolios is determined based on their quoted market price as it provides the best evidence of value, and best reflects the price between two willing parties attempting to transact in an open market. Note 23 on pages 98A to 99A provides disclosure of the estimated fair value of all our financial instruments at October 31, 2003.

If a quoted market price is not available, we use internal or external financial valuation models to estimate the fair value. Where we believe the potential exists that the amount realized on sale will be less than the estimated fair value due to insufficient liquidity over a short period of time, a provision is made. 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. These provisions reflect varying levels of management judgment based on quantitative research and analysis, and industry practice.

The majority of our trading portfolio and obligations related to securities sold short comprise or relate to actively traded debt and equity securities which are carried at fair value based on available quoted market prices. Where quoted market prices are not available for a particular security, the quoted market price of a security with similar characteristics and risk profile is used to estimate the fair value of the unquoted security.

For derivative financial instruments, we determine fair value using various methodologies, including quoted market prices, prevailing market values for similar instruments, net present value of future cash flows and other internal or external pricing models. As few over-the-counter (OTC) derivative financial instruments are actively quoted, we rely primarily on internally developed pricing models and established industry standard pricing models, such as Black-Scholes, to determine fair value. For further information on our derivative instruments, refer to Note 21 on pages 95A to 97A.

In determining the assumptions to be used in our pricing models, we look primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates and price and rate volatilities as applicable. However, certain derivative financial instruments are valued using significant unobservable market inputs such as default correlations, among others. These inputs are subject to significantly more quantitative analysis and management judgment.

The following table summarizes our significant financial assets and liabilities by valuation methodology at October 31, 2003:

Assets and liabilities carried at fair value by valuation methodology

	Financial assets		Financial liabilities	
(C$ millions, except percentage amounts)	**Trading securities**	**Derivatives**	**Obligations related to securities sold short**	**Derivatives**
Fair Value	$81,827	$35,668	$22,855	$37,655
Based on				
Quoted market prices	87%	—%	95%	—%
Pricing models with significant observable market parameters	13	99	5	100
Pricing models with significant unobservable market parameters	—	1	—	—
Total	100%	100%	100%	100%

The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgment by management. The use of different methodologies, models and assumptions may result in significantly different fair values and financial results. To mitigate this risk, all significant financial valuation models are vetted by our risk management function, which is not involved in trading the assets and liabilities and is mandated 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.

In addition, OSFI reviews our models selectively based on the risk profile of the business to ensure appropriateness of the models and validity of the assumptions used by management.

As outlined in Note 1 on page 72A, changes in the fair value of trading securities and obligations related to securities sold short are recognized as trading revenues in non-interest income.

Changes in the fair value of our trading and non-trading derivatives that do not qualify for hedge accounting are recognized in non-interest income. Refer to Note 1 on page 73A for further details.

Line of business results

Overview

Table 3 below shows our results by business segment in 2003. GAAP does not prescribe a method for allocating equity to business segments. For management and reporting purposes, we attribute common equity to our business segments (including the Other segment) based on methodologies designed to measure the equity capital necessary to underpin the risks of the businesses in each segment, as discussed in the Economic Capital section on page 54A. The difference between our total common equity and the common equity attributed to our business segments is allocated to the Other segment. The capital attribution methodologies involve judgment by management, are revised from time to time with changes applied prospectively and affect measures such as business segment return on equity (ROE).

Furthermore, the attribution of common equity is a dynamic process and is affected by current business activity, volumes and environmental factors. Average common equity attributed to our business segments, except RBC Insurance and RBC Global Services, is lower than a year ago partially as a result of the decline in the value of U.S. dollar-denominated assets due to the appreciation of the Canadian dollar relative to the U.S. dollar. The decreases in RBC Banking and RBC Capital Markets are also the result of lower credit risk. Average common equity attributed to RBC Insurance is higher largely due to the acquisition of Business Men's Assurance Company of America (BMA) on May 1, 2003.

In addition, effective the first quarter of this year, we reduced the equity capital attributed to goodwill and intangibles risk, consistent with our capital attribution for other risk categories and to reflect the benefits of having diversified businesses and risks. This resulted in reductions in average common equity attributed to the RBC Banking, RBC Investments and RBC Capital Markets segments.

We generated 52% of our net income from RBC Banking, which had an ROE of 21.0%. Net income increased $30 million from 2002, as discussed on page 28A. Net income from U.S. operations was $154 million, $41 million lower than in 2002. This decrease largely reflected the effect of the lower translated value of U.S. dollar-denominated earnings due to the strengthening of the Canadian dollar relative to the U.S. dollar, as well as to higher costs associated with both RBC Mortgage (a subsidiary of RBC Centura) and with acquisitions completed during the year.

Net income from RBC Insurance was 7% of total net income, and its ROE was 25.0%. Net income was $99 million or 85% higher than in 2002, as discussed on page 30A. Total U.S. net income was $25 million, up from a loss of $6 million in 2002, due to a substantial improvement in earnings from the U.S. life operations.

RBC Investments generated 14% of our net income, and had an ROE of 15.0%. Net income rose $67 million or 20% from last year, as discussed on page 32A. Net income from the U.S. increased to $87 million from a loss of $2 million in 2002, primarily as a result of improved earnings from RBC Dain Rauscher's full-service brokerage and fixed income businesses, and a $25 million after-tax reduction in retention compensation costs.

Net income from RBC Capital Markets was 17% of total net income, and its ROE was 13.0%. Net income increased $91 million or 22% compared to the previous year, as discussed on page 34A. U.S. net income was $120 million, up from a loss of $40 million in 2002, as there was a significant decline in the provision for credit losses related to the U.S. corporate loan portfolio.

RBC Global Services contributed 6% of our net income and recorded an ROE of 27.5%. This segment's net income improved $6 million or 4% from 2002, as discussed on page 36A.

The Other segment, which mainly comprises Corporate Treasury, Corporate Resources, Systems & Technology and Real Estate Operations, generated 4% of our net income in 2003, and produced an ROE of 5.6%. Its 2002 results are shown in Note 3 on page 78A. Net income was $133 million, down $50 million from 2002, due largely to refinements in the methodology for attributing net interest income to our business segments.

TABLE 3 **Results by business segment**

	2003							2002
(C$ millions, except per share and percentage amounts)	**RBC Banking**	**RBC Insurance**	**RBC Investments**	**RBC Capital Markets**	**RBC Global Services**	**Other (1)**	**Total**	**Total**
Net interest income	**$ 5,546**	**$ —**	**$ 419**	**$ 409**	**$ 166**	**$ 102**	**$ 6,642**	$ 6,935
Non-interest income	**2,127**	**2,356**	**3,110**	**2,247**	**824**	**112**	**10,776**	10,320
Total revenues	**7,673**	**2,356**	**3,529**	**2,656**	**990**	**214**	**17,418**	17,255
Provision for credit losses	**554**	**—**	**(2)**	**195**	**2**	**(28)**	**721**	1,065
Insurance policyholder benefits, claims and acquisition expense	**—**	**1,696**	**—**	**—**	**—**	**—**	**1,696**	1,535
Non-interest expense	**4,650**	**460**	**2,912**	**1,671**	**714**	**2**	**10,409**	10,420
Income taxes	**900**	**(16)**	**209**	**278**	**97**	**(8)**	**1,460**	1,365
Non-controlling interest	**8**	**—**	**—**	**4**	**—**	**115**	**127**	108
Net income	**$ 1,561**	**$ 216**	**$ 410**	**$ 508**	**$ 177**	**$ 133**	**$ 3,005**	$ 2,762
U.S. net income	**154**	**25**	**87**	**120**	**8**	**(2)**	**392**	154
Net income As a % of total	**52%**	**7%**	**14%**	**17%**	**6%**	**4%**	**100%**	100%
% growth over prior year	**2%**	**85%**	**20%**	**22%**	**4%**	**(27)%**	**9%**	15%

Return on common equity	**21.0%**	**25.0%**	**15.0%**	**13.0%**	**27.5%**	**5.6%**	**16.7%**	15.8%
Average common equity (2)	**$ 7,350**	**$ 850**	**$ 2,650**	**$ 3,800**	**$ 650**	**$ 2,250**	**$17,550**	$16,800
Diluted EPS							**$ 4.39**	$ 3.93

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

(2) Calculated using methods intended to approximate the average of the daily balances for the period. Attributed to the segments as discussed above.

RBC Banking

Business profile

RBC Banking serves 11.5 million individual, small and medium-sized business, and mid-market commercial clients in Canada, the U.S., the Caribbean and the Bahamas. Our multiple 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. Drawing on our extensive distribution network and working together with other RBC businesses, we offer our clients tailored solutions and financial planning and advice based on life events through a diverse range of financial products and services including deposit accounts, investments and mutual funds, 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 increasingly operate in select businesses such as credit cards. The U.S. market is more fragmented, and many regional markets are highly competitive. Many banks have expanded their focus to offer investment products and financial advice and planning to targeted clients. Critical success factors, in our opinion, include providing a superior client experience, strong revenue focused sales processes, and maintaining rigorous credit and operational risk management practices and expense control.

Our strengths

- Established Canadian retail banking brand
- Strong capabilities in Customer Relationship Management (CRM) and client segmentation and sub-segmentation, and specialized sales forces
- Comprehensive product, sales, service and national distribution capabilities compared to niche players
- Highest client household penetration ratio in personal segments, and lead market share in business deposits and financing among Canadian banks
- Growing U.S. presence in retail banking in the fast-growing Southeast, and in mortgage origination and builder finance nationally

Our strategy

Our strategy is to grow profitable relationships with each one of our business and personal clients in North America by delivering a superior and tailored client experience, reducing costs, and effectively managing risk and capital.

We are focused on achieving the following strategic priorities:

Superior client experience

- Deliver a superior and tailored client experience to each one of our business and personal clients, with extraordinary focus placed on our high value clients

Strong fundamentals

- Ensure strong revenue growth in Canada, deepening client relationships and our "share of wallet," drawing on our financial planning and advice capabilities, and delivering tailored value propositions to targeted segments
- Reinforce our risk mitigation and cost management focus, rigorously managing credit, operational, and compliance risk, and building low-cost delivery capabilities that significantly reduce the risk of errors

North American expansion

- Accelerate U.S. revenue and earnings growth, significantly growing our business with current and prospective clients of RBC Centura and its RBC Mortgage subsidiary and RBC Builder Finance division, while selectively expanding our network in the Southeast and in targeted national markets

Cross-enterprise leverage

- Create a seamless cross-enterprise and north-south experience for our clients, making it easy to do business across RBC Financial Group

Outlook for 2004

Our business is influenced by the interest rate environment, consumer and business loan demand and credit quality trends. Based on our forecast of slightly higher interest rates in Canada in 2004, we anticipate that deposit spread compression could ease. This, combined with reasonable economic and accompanying loan growth, should have positive revenue growth implications in our Canadian business. In the U.S., we anticipate that branch openings, combined with recent acquisitions in Florida and in our mortgage operations, will have a positive revenue impact. We also expect that cost synergies from the acquisitions and other cost management initiatives will contribute to U.S. net income growth.

Financial performance

Net income was up $30 million or 2% from 2002, as higher earnings in Canada more than offset a $41 million decline in U.S. earnings due to the strengthening of the Canadian dollar relative to the U.S. dollar (which accounted for $18 million of the earnings decline) and higher costs associated with RBC Mortgage operations and with acquisitions completed during the year.

Total revenues were up $43 million in 2003 despite a stronger Canadian dollar, which reduced the translated value of U.S. dollar-denominated revenues by $121 million. This reflected strong loan and deposit volume growth in Canada, which more than offset deposit spread compression, as well as the contribution of U.S. acquisitions completed in 2003 and higher revenues at RBC Mortgage.

Non-interest expense increased $122 million or 3%. Higher non-interest expense in Canada reflected higher pension and postretirement benefit costs, investments made to enhance automated service delivery capabilities and the hiring of additional salespeople in the branch network. In the U.S., expense growth reflected the acquisitions of Admiralty Bancorp, Inc. in January 2003, the mortgage unit of Bank One in August 2003 and Sterling Capital Mortgage Company in October 2003, as well as higher staffing and operational costs at RBC Mortgage due to increased origination and refinancing activity earlier in the year. The efficiency ratio increased 130 basis points as non-interest expense grew at a rate higher than revenues.

The provision for credit losses decreased by $72 million or 12% with significant improvement in the quality of the business loan portfolio, as well as lower provisions taken in the personal loan portfolio.

ROE rose to 21.0% in 2003, largely as a result of a $500 million decline in average common equity attributed to this segment, as discussed on page 27A.

Results

(C$ millions, except percentage amounts)	% change	2003	2002
Net interest income	—%	**$ 5,546**	$ 5,557
Non-interest income	3	**2,127**	2,073
Total revenues	1	**7,673**	7,630
Provision for credit losses			
Specific	(12)	**554**	626
Total	(12)	**554**	626
Non-interest expense	3	**4,650**	4,528
Net income before income taxes	—	**2,469**	2,476
Income taxes	(4)	**900**	937
Non-controlling interest	—	**8**	8
Net income	2%	**$ 1,561**	$ 1,531
U.S. net income	(21)	**$ 154**	$ 195
Net income as a % of total group net income	(300)bp	**52%**	55%
ROE	190 bp	**21.0%**	19.1%
Net interest margin (average assets)	(13)bp	**3.42%**	3.55%
Net interest margin (average earning assets)	(17)bp	**3.62%**	3.79%
Efficiency ratio (1)	130 bp	**60.6%**	59.3%
Average assets (2)	4%	**$162,400**	$156,500
Average loans and acceptances (2)	4	**147,900**	142,800
Average deposits (2)	5	**129,000**	122,900
Average common equity (2), (3)	(6)	**7,350**	7,850
Credit information			
Net impaired loans	(9)	**$ 609**	$ 668
Net write-offs	(13)	**648**	744
Net write-offs as a % of average loans and acceptances	(8)bp	**.44%**	.52%
Number of employees (full-time equivalent)	7%	**37,475**	35,014

(1) Efficiency ratio is defined in the Glossary on page 109.

(2) Calculated using methods intended to approximate the average of the daily balances for the period.

(3) Attributed to the segment as discussed on page 27A.

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, providing them with 24/7 access. 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, asset-based finance, leasing and automotive finance. We also provide individual and business clients with a full choice of Visa credit card products including our increasingly popular Avion Platinum card, 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 CRM, client segmentation and sub-segmentation, and sales management, which includes specialized Investment Retirement Planner, Financial Planning, Mortgage, Knowledge-Based Industry and Agriculture sales forces, among others. We plan to drive revenue growth by delivering a superior and tailored client experience which includes strong capabilities in financial planning and advice, leveraging the full RBC Financial Group.

We will continue to reinforce our cost management focus by leveraging e-enabled technology and cross-enterprise 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

Total revenues were $59 million or 1% higher than in 2002 as volume growth in personal lending and deposit products, increased loan portfolio spread and higher card fees offset lower net interest margin from deposit spread compression. Card balances increased 11%, reflecting the success of the Avion card campaign, while continued strength in the housing market drove mortgage balances 6% higher. Approximately 40% of the increase in the number of employees represented the expansion of the sales force in the branch network in 2003.

Results (1)

(C$ millions)	% change	2003	2002
Total revenues	1%	**$ 6,165**	$ 6,106
Average residential mortgages	6	**72,600**	68,200
Average personal loans	3	**24,200**	23,600
Average personal deposits	8	**80,100**	74,400
Average business loans and acceptances	(2)	**32,000**	32,700
Average business deposits	—	**30,600**	30,500
Average card balances	11	**6,900**	6,200
Card spending volumes	13	**30,200**	26,700
Number of:			
Employees (full-time equivalent)	4	**30,865**	29,716
Automated banking machines	(2)	**4,062**	4,151
Branches	(1)	**1,104**	1,117
Online clients	10	**2,552,966**	2,311,915

(1) Averages are calculated using methods intended to approximate the average of the daily balances for the period.

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 recently expanded with the acquisition on November 21, 2003, of the 13 Florida branches of Provident Financial Group Inc., bringing RBC Centura's Florida network to 24 branches. RBC Mortgage expanded through the acquisition of Houston-based Sterling Capital Mortgage Company, becoming one of the top 10 mortgage originators in the U.S.

Our U.S. priorities include:

- Expanding our retail banking business base in the Southeast, significantly growing our business with current and prospective clients of RBC Centura, as well as through targeted acquisitions and new branch expansion
- Strengthening our residential mortgage and builder finance national niche lines of business
- Building our private banking capabilities, working closely with RBC Investments

- Rapidly building a scalable platform to support growth
- Realizing north-south synergies and strengthening our client segmentation, sales and marketing capabilities
- Leveraging cross-selling opportunities across RBC Financial Group, including our new *"RBC Snowbird Package"*

Total revenues were $4 million higher than last year, despite the strengthening of the Canadian dollar relative to the U.S. dollar (which reduced the translated value of revenues by $107 million). In U.S. dollars, total revenues increased 10% to US$894 million due largely to acquisitions completed during the year and the contribution of RBC Mortgage. The growth in average mortgage balances was due primarily to higher levels of loans held for sale at RBC Mortgage, as well as the impact of the acquisition of Eagle Bancshares, Inc. (in July 2002) and the success of a new adjustable rate mortgage product. Although total mortgage originations were up $8.9 billion or 26% from 2002, origination volumes declined significantly in the fourth quarter of 2003, reflecting lower refinancing activity due to the upward movement in interest rates.

Results (1)

(C$ millions)	% change	2003	2002
Total revenues	—%	**$ 1,285**	$ 1,281
Average residential mortgages	45	**4,200**	2,900
Average personal loans	—	**3,300**	3,300
Average personal deposits	(7)	**8,000**	8,600
Average business loans and acceptances	(3)	**8,300**	8,600
Average business deposits	7	**5,800**	5,400
Average card balances	—	**100**	100
Card spending volumes	—	**400**	400
Mortgage originations ($ billions)	26	**42.6**	33.7
Number of:			
Employees (full-time equivalent)	30	**5,444**	4,181
Automated banking machines	1	**279**	275
Branches (2)	(1)	**242**	245
Online clients	17	**104,473**	89,434

(1) Averages are calculated using methods intended to approximate the average of the daily balances for the period.

(2) Excludes RBC Mortgage and RBC Builder Finance sales offices of 274 in 2003 and 252 in 2002.

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 the Eastern Caribbean countries of Antigua, Dominica, Montserrat, St. Kitts, and St. Lucia through a network of branches, business centres and automated banking machines.

Total revenues fell $20 million or 8% from last year, due largely to the strengthening of the Canadian dollar relative to the U.S. dollar and certain Caribbean currencies.

Results

(C$ millions)	% change	2003	2002
Total revenues	(8)%	**$ 223**	$ 243
Number of:			
Employees (full-time equivalent)	4	**1,166**	1,117
Automated banking machines	—	**60**	60
Branches	—	**43**	43

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 comprises more than 100 life insurance companies and more than 200 property and casualty insurers and generates almost $60 billion in premiums annually. The U.S. life insurance industry, in which our U.S. business is focused, is both competitive and fragmented and includes almost 1,200 national and regional companies. The U.S. travel insurance industry, which is a new market for RBC Insurance, is estimated to be worth more than US$500 million in premiums and is served by a small number of companies. The international reinsurance industry continues to be dominated by several global players but also includes a number of niche companies.

Key industry trends that continue to affect the insurance sector include ongoing consolidation and increased government regulation and oversight. In addition, consumer product preferences are shifting to reflect demographic changes and renewed concerns over health and travel safety. Distribution is also evolving, with the Internet becoming a more important sales and support tool.

Our strengths

- An integrated North American insurance operation, focused on leveraging synergies across the organization
- 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 bases
- 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 are seeking to:

- Focus on generating above-average revenue growth in conjunction with strong profitability through significant expansion across all of our businesses by adding distribution channels and entering into new markets
- Further integrate our operational areas on a North American basis to maximize efficiencies and economies of scale and scope, while also further leveraging the strengths of being part of RBC Financial Group
- Adopt a leadership position in seeking change in bank insurance regulation to ensure the greatest opportunities for providing integrated bank insurance products and services to our clients
- Focus on financial management to continue to build our expertise in managing capital, investment and taxes within an international bank insurance context

Outlook for 2004

Performance in our business is influenced by our policyholder claims experience, the general economic and interest rate environment, and by credit risk considerations related to our investment portfolios. Our outlook is for strong revenue growth, driven by demographic trends, reasonable economic growth in Canada and the U.S., and expansion into new products and markets with a particular focus on wealth management and living benefits solutions. We will also focus on opportunities for efficiencies from further integrating our Canadian and U.S. operations and expect that performance from our U.S. life insurance operations will improve as we integrate the acquisition of BMA and realize cost and revenue synergies.

Financial performance

Net income increased $99 million or 85% from 2002. This increase reflected strong profitability in the reinsurance business, and improvements in the Canadian and U.S. life businesses, which benefited from stronger equity markets and a more stable interest rate environment compared to 2002. Earnings from the U.S. were $25 million compared to a loss of $6 million a year ago, largely due to the improvement in the life business noted above.

While RBC Liberty Insurance reported 13 months of activity in 2002 as a result of a change in its reporting period from September 30 to October 31 to be consistent with our fiscal year, the Canadian operations reported 13 months of results in 2003 for the same reason. The extra month of results in 2003 largely offset the extra month of results reported last year.

Insurance premiums, investment and fee income were up $313 million or 15% in 2003. The increase was largely due to higher earned

premiums and investment income from the acquisition of BMA in the middle of 2003 and growth in earned premiums from the home and auto business. In addition, improvements in the equity markets increased both investment income and policyholder benefits associated with customer holdings of Universal Life products by $83 million.

Insurance policyholder benefits, claims and acquisition expense was higher, primarily reflecting volume growth in the home and auto business and the increase in policyholder benefits related to Universal Life products mentioned above, which was partly offset by lower reinsurance claims.

The $23 million or 5% increase in non-interest expense was related to business volume growth as well as costs associated with the acquisition of BMA, which were partially offset by cost savings in other areas.

ROE increased to 25.0% as higher net income more than offset the additional $150 million in average common equity attributed to this segment, as discussed on page 27A.

Results

(C$ millions, except percentage amounts)	% change	2003	2002
Non-interest income			
Net earned premiums (1)	11%	**$ 1,965**	$ 1,767
Investment income	78	**298**	167
Fee income	(15)	**93**	109
Insurance premiums, investment and fee income	15	**2,356**	2,043
Insurance policy holder benefits, claims and acquisition expense	10	**1,696**	1,535
Non-interest expense	5	**460**	437
Net income before income taxes	182	**200**	71
Income taxes	n.m.	**(16)**	(46)
Net income	85%	**$ 216**	$ 117
U.S. net income	n.m.	**$ 25**	$ (6)
Net income as a % of total group net income	300 bp	**7%**	4%
ROE	930 bp	**25.0%**	15.7%
Premiums and deposits	9%	**$ 2,214**	$ 2,023
Average assets (2)	20	**6,700**	5,600
Average common equity (2), (3)	21	**850**	700
Number of employees (full-time equivalent)	9%	**2,883**	2,641

(1) Net of reinsurance premiums.

(2) Calculated using methods intended to approximate the average of the daily balances for the period.

(3) Attributed to the segment as discussed on page 27A.

n.m. not meaningful

Strategy by division

Life

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

In Canada, life and health insurance products are distributed through more than 7,000 independent brokers affiliated with producer groups, financial planning firms and stock brokerage firms, as well as through direct sales and a network of career sales representatives. In the U.S., we provide life and health insurance products through independent broker-dealers and a proprietary sales force. We also offer select products through direct channels.

Over the next year, our focus will be on further integrating our life insurance operations, increasing growth in premiums through enhancing our products and services and further developing our distribution network.

Financial highlights by division

Higher insurance premiums, investment and fee income reflected a substantial increase in investment income associated with Universal Life products and higher earned premiums from the BMA acquisition and the Canadian life business, which more than offset lower earned premiums from the reinsurance business and from RBC Liberty Insurance due to policy surrenders. In 2003, an extra month of revenues of $37 million was reported for the Canadian life operation as it changed its reporting period to be consistent with our fiscal year, and in 2002, an extra month of revenues of $45 million was reported for the U.S. operations for the same reason. The increase in average assets was primarily due to the acquisition of BMA in May 2003.

Results

(C$ millions)	% change	2003	2002
Insurance premiums, investment and fee income	19%	**$ 1,625**	$ 1,363
Average assets (1)	23	**5,400**	4,400
Number of:			
Life and health policies in force and certificates in Canada (thousands)	29	**3,850**	2,985
Life policies in force in the U.S. (thousands)	(6)	**2,185**	2,325
Sales agents (U.S. and Canada)	2	**1,268**	1,244

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

Non-life

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

We provide Canadians with a wide range of home and auto insurance products, offering them to individual clients and employee and affinity groups through direct sales. Travel insurance products, which are sold through travel agents and the Internet in Canada and the U.S., as well as through bank channels in Canada, include trip cancellation and interruption 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 expand our home and auto, and travel insurance operations and effectively managing our property reinsurance portfolio.

The home and auto business drove insurance premiums, investment and fee income $64 million higher in 2003 due to increased sales of new policies. The number of home and auto policies in force increased 42% from last year. In addition, the Canadian home and auto, and travel businesses reported an extra month of revenues of $27 million in 2003 as these businesses changed their reporting period to be consistent with our fiscal year.

Results

(C$ millions)	% change	2003	2002
Insurance premiums, investment and fee income	17%	**$ 436**	$ 372
Average assets (1)	29	**900**	700
Number of:			
Home and auto — personal lines policies in force (thousands)	42	**132**	93
Travel — coverages (thousands)	2	**2,388**	2,339

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

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, insurance software and outsourcing and administration solutions services.

Our travel and emergency assistance services include coordinating 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. We also oversee the creditor insurance products and services for individual and business clients of RBC Financial Group. This includes life and disability insurance for mortgages, loans and Visa cards.

In the U.S., our fee businesses include outsourcing services and administration and software systems. Our Business Process Outsourcing division provides services such as underwriting, billing and collection, and claims processing, while our 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 build on our existing infrastructure and technology to enhance our product and service offering and grow our fee businesses.

Insurance premiums, investment and fee income fell $13 million in 2003 as a result of lower outsourcing revenues from the U.S. businesses, which was related to the decline in the number of policies under administration. In addition, an extra month of results was reported in 2002, accounting for $7 million of the decrease, to align the reporting period of the U.S. operations with our fiscal year.

Results

(C$ millions)	% change	2003	2002
Insurance premiums, investment and fee income	(4)%	**$ 295**	$ 308
Average assets (1)	(20)	**400**	500
Number of:			
Assistance services — calls (thousands)	(2)	**670**	681
Policies under administration in the U.S. (thousands)	(4)	**3,925**	4,100

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

RBC Investments

Business profile

RBC Investments provides wealth management services including full-service and self-directed brokerage, financial planning, investment counselling, personal trust, private banking and investment management products and services to 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.

Industry profile

Wealth management remains a highly competitive business with numerous large and boutique firms serving the market. Volatile markets and the rising costs of managing the regulatory and compliance requirements of the business continue to encourage consolidation. Consolidation in the mutual fund industry has not significantly altered the competitive landscape as distribution channels continue to be expanded by all players.

Our strengths

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

Our strategy

Our goal is to be our clients' first choice for wealth management. We plan to do so by developing broader and deeper relationships with our clients throughout their lives.

Employee engagement, service excellence and client commitment underlie our pursuit of exceptional business performance and shareholder value creation. In order to broaden and deepen relationships with our clients, we are using segmentation strategies to develop targeted solutions for specific client groups. In addition, we are transforming our distribution models to ensure that our financial consultants and advisors have more time to focus on their clients. We are also focusing on improving our operational infrastructure and processes to efficiently support growth.

Outlook for 2004

Based on our expectation that investor confidence and capital markets performance will continue to improve modestly, we expect moderate revenue growth in 2004. Cost-containment efforts should keep the rate of expense growth below that of revenue growth. Retention compensation costs relating to U.S. acquisitions are forecast to be approximately $20 million lower in 2004 than in 2003, further contributing to net income growth.

Financial performance

Net income increased $67 million or 20% in 2003, driven primarily by improved earnings in the U.S. and ongoing cost-containment initiatives, as well as higher earnings from the Canadian self-directed brokerage and asset management businesses. U.S. net income was up $89 million from a year ago, with significantly improved performance in the full-service brokerage business, strong fixed income results and declining retention compensation costs.

Total revenues fell $116 million or 3%, largely reflecting the strengthening of the Canadian dollar relative to the U.S. dollar, which reduced the translated value of U.S. dollar-denominated revenues by $175 million. This decline more than offset higher revenues from RBC Dain Rauscher's fixed income and full-service brokerage businesses. Total revenues from the wealth management businesses in Canada were negatively affected by weak capital market conditions in the first half of the year.

The $234 million or 7% decline in non-interest expense included a $150 million reduction due to the stronger Canadian dollar, and reflected savings from cost-containment initiatives and a $41 million decline in retention compensation costs at RBC Dain Rauscher.

ROE improved 400 basis points to 15.0%, reflecting higher earnings in 2003, as well as a $350 million reduction in average common equity attributed to this segment, as discussed on page 27A.

Results

(C$ millions, except percentage amounts)	% change	2003	2002
Net interest income	13%	**$ 419**	$ 371
Non-interest income	(5)	**3,110**	3,274
Total revenues	(3)	**3,529**	3,645

Provision for credit losses			
Specific	100	**(2)**	(1)
Total	100	**(2)**	(1)
Non-interest expense	(7)	**2,912**	3,146
Net income before income taxes	24	**619**	500
Income taxes	33	**209**	157
Net income	20%	**$ 410**	$ 343
U.S. net income (loss)	n.m.	**$ 87**	$ (2)
Net income as a % of total group net income	200 bp	**14%**	12%
ROE	400 bp	**15.0%**	11.0%
Average common equity (1)	(12)%	**2,650**	3,000
Number of employees (full-time equivalent)	(13)%	**10,464**	12,001

(1) Calculated using methods intended to approximate the average of the daily balances for the period. Attributed to the segment as discussed on page 27A.

n.m. not meaningful

Strategy by division

Canada

Wealth Management Canada

This group includes Dominion Securities (full-service brokerage) and Action Direct (self-directed brokerage), which serve both investors requiring advisor-based comprehensive financial solutions and self-managed investors. Services are provided by over 1,320 investment advisors and 115 investment representatives, as well as via telephone and the Internet. Additionally, within this group our Private Counsel, Trust Services and Private Banking businesses serve high net worth clients across Canada, offering a relationship management approach for clients in need of sophisticated financial solutions. In Canada, there are 43 investment counsellors, 67 trust officers and 51 private bankers in locations across the country. RBC Investments Financial Planning is a business operated jointly with RBC Banking. 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. There are 1,030 relationship financial planners and 530 commission-based investment and retirement planners who are also financial planners and licensed mutual funds salespeople. RBC Investments reports financial results from its share of this jointly operated business within Wealth Management Canada. Our goal is to grow our market position in Canada by continuing to build and enhance existing client relationships.

Global Asset Management

This unit includes RBC Asset Management, which became Canada's largest mutual fund company in 2003. We directly manage more than $43 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 encompasses 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. RBC Asset Management has enjoyed strong success in asset retention, resulting from strong relative investment performance, improved client retention by RBC Royal Bank and RBC Investments Financial Planning, and support for RBC Funds in the advisory (broker and independent financial planner) channel, which contributed to a continued gain in market share. Beginning in 2004, Global Asset Management will also include Voyageur Asset Management (in 2003, included within RBC Dain Rauscher), our U.S.-based asset management company, which manages US$21 billion in mutual funds and institutional mandates. In 2004, our goal is to maximize growth opportunities by leveraging RBC partnerships in Canada and the U.S.

United States

RBC Dain Rauscher

Minneapolis-based RBC Dain Rauscher is ranked as the eighth-largest full-service securities firm in the U.S., based on number of financial consultants. We have nearly 1,750 financial consultants serving individual clients from coast to coast and a fixed income business with 327 investment bankers, sales representatives and traders serving institutional and retail clients nationwide. 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 that generate greater market share and scale within our existing markets.

International

Global Private Banking

Operating under the brand name Royal Bank of Canada Global Private Banking, this unit provides private banking, trust and investment counselling, and investment advisory solutions to high net worth clients in more than 100 countries from 23 offices around the world. In 2004, this group will include the International Advisory Group (in 2003, included within Wealth Management Canada) to better align this business directly with its international clients. This team has both Canadian and internationally-based employees. Our goal is to provide specialized global services to high net worth clients with assets of more than $1 million. In 2004, we will continue to grow revenues by exploring acquisition opportunities in the Americas and Europe, by building distribution alliances with financial institutions that are strong in their local market but lack an international wealth management capability, and with an increasingly aggressive outreach sales and marketing program. The addition of non-proprietary money management capabilities will expand our value proposition to clients.

Financial highlights by division

Lower transaction-based and asset value-based fee revenues drove the $67 million or 5% decline in revenues from the wealth management businesses in Canada, reflecting an extremely weak Canadian RRSP season in 2003, which more than offset strong performance from the self-directed brokerage business. Global Private Banking revenues fell $15 million, also due to lower fee-based revenues and reduced net interest income as a result of low interest rates. The decline in revenues from RBC Dain Rauscher is entirely attributable to the strengthening of the Canadian dollar relative to the U.S. dollar, as both its full-service brokerage and fixed income businesses performed well. Global Asset Management revenues remained virtually unchanged.

Total revenues

(C$ millions)	% change	2003	2002
Wealth Management Canada	(5)%	**$ 1,212**	$ 1,279
RBC Dain Rauscher	(2)	**1,666**	1,702
Global Private Banking	(4)	**368**	383

Global Asset Management	—	**287**	286
Other	n.m.	**(4)**	(5)
	(3)%	**$ 3,529**	$ 3,645

n.m. not meaningful

The AUA of the wealth management businesses in Canada was virtually unchanged despite higher year-end equity values compared to 2002, as $14 billion in custody-related AUA was transferred to RBC Global Services. RBC Dain Rauscher's AUA balance fell 4% in 2003 due to the strengthening of the Canadian dollar relative to the U.S. dollar, which reduced the translated value of U.S. dollar-denominated assets. In U.S. dollars, RBC Dain Rauscher's AUA increased US$11.8 billion. Global Private Banking's personal AUA was also affected by the stronger Canadian dollar which negatively affected the translated value of both Pound-Sterling and U.S. dollar-denominated assets. Institutional AUA grew 11% as additional business was acquired from existing clients.

Assets under administration (AUA)

(C$ millions)	% change	2003	2002
Personal			
Wealth Management Canada	—%	**$142,750**	$142,160
RBC Dain Rauscher	(4)	**128,150**	132,930
Global Private Banking	(15)	**43,750**	51,570
	(4)	**314,650**	326,660
Institutional — Global Private Banking	11	**77,520**	69,730
	(1)%	**$392,170**	$396,390

Personal AUM decreased $4 billion due to the effect of the stronger Canadian dollar on foreign currency-denominated assets in 2003. Much of the 7% increase in institutional AUM was related to the accumulation of new assets despite the foreign exchange impact mentioned above, while the higher mutual fund balances primarily reflected higher asset values at the end of 2003 compared to last year.

Assets under management (AUM)

(C$ millions)	% change	2003	2002
Personal	(12)%	**$31,300**	$35,660
Institutional	7	**19,690**	18,410
Mutual funds	7	**36,730**	34,230
	(1)%	**$87,720**	$88,300

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 New York and London, and offices in 28 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 Index. However, we believe significant opportunities exist for specialized players targeting the lower end of the S&P 500 as well as companies that have the potential to move into this category. 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. We believe that 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 in Canada 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 our targeted 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-sized 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 2004

Our total revenues and earnings are dependent on the performance of both capital and credit markets and the strength of the economic environment, which drive demand for new issue and advisory services, merger and acquisition activities and trading volumes. Although economic and market conditions remain uncertain, our expectation is that capital markets performance will improve modestly in 2004, resulting in moderate revenue growth. We also expect to maintain our discipline with respect to costs and credit risk.

Financial performance

Net income increased $91 million or 22% in 2003, as a significant reduction in the provision for credit losses related to the U.S. corporate loan portfolio more than offset higher non-interest expense.

Total revenues increased $12 million despite a $115 million reduction in the translated value of U.S. dollar-denominated revenues due to the stronger Canadian dollar and lower net interest income reflecting the intentional reduction in the size of the corporate loan portfolio. The increase was largely due to extremely strong performance from the fixed income businesses. The fixed income businesses benefited from highly active debt markets and the favourable interest rate environment in 2003.

Non-interest expense was up $44 million or 3% compared to last year, primarily due to higher variable compensation costs during the second half of the year related to the improvement in capital market activity, and costs associated with new growth initiatives and with restructuring the U.S. investment banking and institutional equities businesses. These increases more than offset the $69 million reduction in the translated value of U.S. dollar-denominated expenses due to the stronger Canadian dollar.

The $270 million decline in the provision for credit losses, the $342 million decline in net impaired loans and the $326 million decline in net write-offs reflected the improvement in the quality of the corporate loan portfolio compared to 2002. Exposures to higher risk sectors, such as

telecommunication and energy, continue to be reduced.

ROE improved to 13.0% in 2003, due to higher net income as well as a $150 million reduction in average common equity attributed to this segment, as discussed on page 27A.

Results

(C$ millions, except percentage amounts)	% change	2003	2002
Net interest income	(23)%	**$ 409**	$ 532
Non-interest income	6	**2,247**	2,112
Total revenues	—	**2,656**	2,644
Provision for credit losses			
Specific	(58)	**195**	465
Total	(58)	**195**	465
Non-interest expense	3	**1,671**	1,627
Net income before income taxes	43	**790**	552
Income taxes	106	**278**	135
Non-controlling interest	n.m.	**4**	—
Net income	22%	**$ 508**	$ 417
U.S. net income (loss)	n.m.	**$ 120**	$ (40)
Net income as a % of total group net income	200 bp	**17%**	15%
ROE	300 bp	**13.0%**	10.0%
Average assets (1)	11%	**198,500**	178,200
Average loans, acceptances and reverse repurchase agreements (1)	2	**62,700**	61,400
Average deposits (1)	—	**79,500**	79,200
Average common equity (1), (2)	(4)	**3,800**	3,950
Credit information			
Net impaired loans	(48)	**$ 373**	$ 715
Net write-offs	(64)	**184**	510
Net write-offs as a % of average loans, acceptances and reverse repurchase agreements	(54)bp	**.29%**	.83%
Number of employees (full-time equivalent)	(1)%	**2,912**	2,938

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

(2) Attributed to the segment as discussed on page 27A.

n.m. not meaningful

Strategy by division

Global Investment Banking

In February 2003, the Capital Markets Services division was split into its two component parts — Global Investment Banking and Global Equity — primarily to address the changes in the regulatory and governance environments that require the separation of research and investment banking activities.

The Global Investment Banking division houses the corporate and investment banking businesses. We offer a full range of credit and corporate finance products, including debt and equity underwriting, mergers and acquisitions advice and execution and financial sponsorship coverage.

In Canada, we intend to continue to be a full-service provider to all industries, building on the breadth and longevity of our client relationships and a long-standing reputation as a top-ranked investment bank. In the U.S., we plan to be industry-focused — specifically on technology, telecommunication, health care, energy, consumer products and mid-sized financial institutions. We expect to differentiate ourselves on our ability to provide superior market-based solutions for our target clients.

Global Equity

Global Equity provides expertise in the research and trading of North American and select international securities.

We intend to leverage our broad knowledge of Canadian markets, the strength of our research capabilities and the breadth and depth of our institutional client relationships to serve our clients better. In the U.S., our goal is to combine our traditional capital markets focus with our research capabilities to build a franchise in select segments of the U.S. middle market — specifically, the technology, health care, energy, communications, consumer products, financial institutions and real estate sectors. We plan to continue to develop our electronic trading capabilities to keep pace with the increasing demand from clients for electronic execution services.

Global Financial Products

This division brings 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 is the centre of expertise for the proprietary trading activities of RBC Capital Markets. 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.

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 prime brokerage, 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, New York and Sydney. 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 plan to continue to invest in innovative electronic delivery channels that offer sophisticated and flexible products and services.

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 Financial Group.

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 manage the size and credit quality of our corporate lending base.

Alternative Investments

Alternative Investments was formed in June 2002 with a mandate to expand our wholesale asset management capabilities, which today include operations in structuring hedge fund transactions and in private debt and 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 and Collateralized Debt Obligations. We are uniquely positioned to leverage our existing infrastructure and our superior product knowledge across other businesses within RBC Financial Group that have strong relationships with our target client base.

Financial highlights by division

Total revenues were negatively affected by the appreciation of the Canadian dollar relative to the U.S. dollar, which reduced the translated value of U.S. dollar-denominated revenues by $115 million. Revenues from Global Financial Products were up $117 million or 13%, as the favourable interest rate environment, higher market volumes and new initiatives helped to fuel revenue growth in many of our fixed income businesses. Notably strong results were experienced in bond businesses in both domestic and international markets, as well as structured products and

securitization. Revenues from our proprietary trading activities in Global Financial Products were lower than last year, largely due to the appreciation of the Canadian dollar relative to the U.S. dollar. Poor capital market conditions during the first half of 2003 dampened revenues from Global Investment Banking and Global Equity. In addition, 2002 revenues from Global Investment Banking included credit derivative gains related to accounts classified as impaired last year. Global Treasury Services revenues were up $10 million on higher contributions from the foreign exchange and money market sales and trading businesses. Revenues from Global Credit were up $58 million despite lower net interest income due to the intentional reduction in the size of the corporate loan book, as this year's results included net gains on credit derivatives, while last year's results included net losses. Revenues from Alternative Investments increased $10 million, largely due to strong growth in the hedge fund business. The Alternative Investments business also recorded $39 million of losses on private equity investments related largely to the four years ended October 31, 2003. These losses were recognized as a result of our determination that certain private equity investments should be accounted for using the equity method of accounting rather than the previously applied cost method of accounting.

Total revenues

(C$ millions)	% change	2003	2002
Global Investment Banking	(24)%	**$ 543**	$ 714
Global Equity	(4)	**292**	304
Global Financial Products	13	**1,004**	887
Global Treasury Services	2	**555**	545
Global Credit	56	**161**	103
Alternative Investments	11	**101**	91
	—%	**$ 2,656**	$ 2,644

The decline in average assets in the Global Investment Banking and Global Credit businesses reflected the continued and intentional reduction in the size of the non-core corporate loan portfolio compared to a year ago. The increase in average assets in Global Financial Products related to the growth in fixed income and global equity derivatives businesses, and in Alternative Investments reflected the growth in the hedge fund business. Global Treasury Services also recorded a growth in average assets, due to positive mark-to-market adjustments relating to foreign exchange derivatives, and increased assets in support of our money market sales and trading and liquidity management activities.

Average assets (1)

(C$ millions)	% change	2003	2002
Global Investment Banking	(52)%	**$ 5,100**	$ 10,600
Global Equity	—	**600**	600
Global Financial Products	29	**93,000**	71,900
Global Treasury Services	10	**84,700**	77,200
Global Credit	(51)	**4,900**	10,100
Alternative Investments	31	**10,200**	7,800
	11%	**$198,500**	$178,200

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

RBC Global Services

Business profile

RBC Global Services offers specialized transaction processing services to business, commercial, corporate and institutional clients in Canada and select international markets, principally the U.K. and Australia. Key businesses include global custody, investment administration, correspondent banking, cash management, payments and trade finance. Our 50% interest in the Moneris Solutions joint venture with Bank of Montreal for merchant card processing is reported in RBC Global Services.

Industry profile

The transaction processing services industry is highly competitive and relatively mature in the Canadian market. Monoline specialists and new market entrants compete against traditional financial institutions. Scale continues to be important to support the significant investment in technology required to introduce new products and services, accommodate industry-driven infrastructure changes and enhance operational efficiencies. The quality of client service and strength of client relationships are also key differentiating factors in these businesses. Market consolidation continued in 2003, particularly in businesses such as global custody and merchant card processing, which require global capability or significant scale.

Our strengths

- We have a leadership position in Canada in these businesses as measured by assets under administration (AUA) and number of client relationships
- We have strong client relationships as demonstrated by our high rate of client retention and new business generated from existing clients
- We are recognized for quality of service as evidenced in third-party client surveys, such as *Global Custodian* magazine's annual Agent Bank review, which has assigned us "Top Rated" status for 15 consecutive years; and our recognition by Stewart Associates as Canada's highest-rated service provider of cash management services for the past five years
- 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 platforms within RBC Financial Group to offer a superior integrated service

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:

- Leverage our Canadian product and service strengths to profitably grow our business in North America and select international markets
- Expand the business through key alliances, acquisitions and partnerships and continue to leverage the Moneris Solutions joint venture
- Enhance our processing and systems platforms to deliver new capabilities, improve efficiencies and achieve economies of scale
- Differentiate our service offering by taking a client-centric approach that incorporates the diversified strengths and products of RBC Financial Group

Outlook for 2004

While our transaction processing revenue is primarily derived from stable, fee-based sources, interest earned on deposits and cash balances, and fees earned on client assets are variable sources of revenue that influence the overall revenue of this segment. Key risks to this income stream come from lower interest rates and poor capital markets performance. We expect interest rates to remain low in historical terms, which will continue to have an unfavourable impact on our revenue growth in 2004. Higher asset values resulting from a modest improvement in capital markets during 2004 should have a favourable impact on fee revenues, which should offset the unfavourable impact of the low interest rate environment.

Financial performance

Net income was up $6 million or 4% from 2002 as higher revenues, a lower provision for credit losses and lower income taxes offset higher non-interest expense.

Total revenues increased $33 million or 3%, reflecting growth in fee income from the cash management and custody businesses. However, lower capital markets transaction volumes and securities values earlier in 2003, as well as the low interest rate environment throughout the year, restrained the pace of revenue growth.

Non-interest expense was $46 million or 7% higher in 2003, due to increased business activity during the year, continued investments in technology and higher pension and severance costs.

The provision for credit losses decreased $8 million, as exposures to higher risk countries were closely monitored.

ROE fell 90 basis points in 2003 to 27.5%, primarily reflecting $50 million in additional average common equity attributed to the segment, as discussed on page 27A.

Results

(C$ millions, except percentage amounts)	% change	2003	2002
Net interest income	21%	**$ 166**	$ 137
Non-interest income	—	**824**	820
Total revenues	3	**990**	957
Provision for credit losses			
Specific	(80)	**2**	10
Total	(80)	**2**	10
Non-interest expense	7	**714**	668
Net income before income taxes	(2)	**274**	279
Income taxes	(10)	**97**	108
Net income	4%	**$ 177**	$ 171
U.S. net income	(20)	**$ 8**	$ 10
Net income as a % of total group net income	—	**6%**	6%
ROE	(90)bp	**27.5%**	28.4%
Average common equity (1)	8%	**650**	600
Credit information			
Net impaired loans	(55)	**$ 5**	$ 11
Net write-offs	n.m	**5**	(1)
Net write-offs as a % of average loans and acceptances	41bp	**.36%**	(.05)%
Number of employees			
(full-time equivalent)	(1)%	**2,550**	2,571

(1) Calculated using methods intended to approximate the average of the daily balances for the period. Attributed to the segment as discussed on page 27A.

n.m. not meaningful

Strategy by division

Institutional & Investor Services

Institutional & Investor Services is Canada's largest custodian as measured by AUA, and a provider of investment administration services to corporate and institutional investors worldwide. We operate from 12 locations throughout the world, with a global custody network spanning 80 markets.

Our plan is 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

Total revenues increased $16 million or 4%. Higher fee income was partially offset by lower foreign exchange revenue and weaker capital markets earlier in the year. Although the higher AUA balance in 2003 reflects the positive impact of new business, the majority of the increase was due to higher equity values at the end of the year.

Results

(C$ millions)	% change	2003	2002
Total revenues	4%	**$ 417**	$ 401
Assets under administration	16	**1,122,000**	963,200

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 strong client relationships by:

- Creating differentiated value-added solutions that address the unique needs of the various market segments
- Adding new revenue streams by introducing service offerings that integrate our new products with those of other business platforms

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

Total revenues decreased $2 million or 2% primarily due to lower interest rates. Average asset and deposit balances have changed little from last year, although the mix has changed as we continue to manage our exposure to higher risk markets.

Results

(C$ millions)	% change	2003	2002
Total revenues	(2)%	**$ 96**	$ 98
Average assets (1)	(18)	**1,400**	1,700
Average deposits (1)	19	**2,020**	1,700

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

Treasury Management & Trade

Treasury Management & Trade provides cash management, payment and trade services to business and public sector markets in Canada. Our Trade team provides importers and exporters with a variety of trade products, services and counsel. Our cash management group provides a full range of solutions to clients including disbursement, receivable and information products. 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:

- Enhancing our market segmentation approach that accommodates the diverse needs of business and public sector 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

Total revenues increased $19 million or 4% primarily due to growth in non-interest income from cash management products and services. Net interest income also increased as deposit growth more than offset lower interest rates.

Results

(C$ millions, volumes in thousands)	% change	2003	2002
Total revenues	4%	**$ 477**	$ 458
Average deposits (1)	6	**6,740**	6,350
Payment volumes	3	**7,634**	7,440
Payment errors (per 100,000 payments)	(12)	**2.9**	3.3

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

Financial priority: Revenue growth and diversification

Highlights

- Total revenues up 1%
- Net interest income down 4%
- Net interest margin of 1.68%, down 21 basis points
- Non-interest income up 4%
- Non-interest income 62% of total revenues

TABLE 4 **Total revenues**

(C$ millions)	2003	2002	2003 vs 2002 Increase (decrease)	
Net interest income	**$ 6,642**	$ 6,935	**$ (293)**	**(4)%**
Non-interest income	**10,776**	10,320	**456**	**4**
Total revenues	**$17,418**	$17,255	**$ 163**	**1%**

Total revenues were up $163 million or 1% from a year ago, despite a $510 million decline in the translated value of U.S. dollar-denominated revenues due to a significant appreciation of the Canadian dollar relative to the U.S. dollar. Excluding the effect of the appreciation of the Canadian dollar, revenues were up $673 million or 4%. The increase in revenues largely reflects higher insurance premiums, investment and fee income, and higher trading revenues.

Outlook

We are targeting revenue growth of 5—8% in fiscal 2004, based on, among other things, our expectations that capital markets will continue to improve, interest rates in Canada will rise moderately, and the Canadian and U.S. economies will grow somewhat faster than in 2003.

Net interest income

Net interest income was $6.6 billion, down $293 million or 4% from 2002, with $120 million of the decrease attributable to a decline in the translated value of U.S. dollar-denominated net interest income due to the strengthening of the Canadian dollar relative to the U.S. dollar. As shown in Table 6 on page 39A, while higher asset volumes (including residential mortgages, personal and credit card loans) added $249 million to net interest income in 2003, changes in the rates received on assets and paid on liabilities reduced net interest income by $542 million, primarily reflecting price competition in retail banking and low interest rates, which led to margin compression.

TABLE 5 **Net interest income and margin**

(C$ millions, except percentage amounts)	2003	2002	2001
Average assets (1)	**$396,400**	$367,300	$327,100
Net interest income	**6,642**	6,935	6,311
Net interest margin (2)	**1.68%**	1.89%	1.93%

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

(2) Net interest income, as a percentage of average assets.

Net interest margin

As shown in Table 5 above, the net interest margin decreased by 21 basis points from a year ago to 1.68%. This reflected significant growth in low-interest-yielding assets such as securities, higher amounts of non-interest-yielding assets such as derivative-related amounts (included in other assets) and spread compression resulting from price competition in retail banking and low interest rates.

As shown in Table 7 on page 40A, while the average rate paid on total liabilities decreased by 19 basis points, the average rate received on total assets decreased by 38 basis points, leading to a 21 basis point reduction in the net interest margin. The average rate received on securities dropped 47 basis points while volumes of securities were up $11.9 billion on average or 13%. Similarly, other assets, which do not earn interest, were up $8.5 billion on average.

TABLE 6 **Change in net interest income**

(C$ millions)	2003 vs 2002 Increase (decrease) due to changes in average volume (1)	2003 vs 2002 Increase (decrease) due to changes in average rate (1)	2003 vs 2002 Net change	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
Assets						
Deposits with banks						
Canada	**$ 1**	**$ 1**	**$ 2**	$ (3)	$ (8)	$ (11)
United States	**23**	**(65)**	**(42)**	(21)	(171)	(192)
Other International	**29**	**(96)**	**(67)**	(17)	(128)	(145)
Securities						
Trading account	**162**	**(199)**	**(37)**	502	(700)	(198)
Investment account	**191**	**(256)**	**(65)**	156	(182)	(26)
Loan substitute	**(3)**	**(7)**	**(10)**	(3)	4	1
Assets purchased under reverse repurchase agreements	**115**	**21**	**136**	197	(709)	(512)
Loans						
Canada						
Residential mortgage	**230**	**(237)**	**(7)**	218	(402)	(184)
Personal	**38**	**65**	**103**	(116)	(475)	(591)
Credit card	**100**	**(4)**	**96**	(28)	(9)	(37)
Business and government	**(116)**	**667**	**551**	(156)	166	10
United States	**(92)**	**(311)**	**(403)**	655	(563)	92
Other International	**55**	**(708)**	**(653)**	(183)	(676)	(859)
Total interest income	**$ 733**	**$ (1,129)**	**$ (396)**	$ 1,201	$ (3,853)	$ (2,652)
Liabilities						
Deposits						
Canada	**$ 265**	**$ 82**	**$ 347**	$ 70	$ (1,818)	$ (1,748)
United States	**2**	**(225)**	**(223)**	399	(1,027)	(628)
Other International	**(8)**	**(373)**	**(381)**	322	(949)	(627)
Obligations related to securities sold short	**113**	**(71)**	**42**	136	7	143
Obligations related to assets sold under repurchase agreements	**66**	**72**	**138**	(12)	(468)	(480)
Subordinated debentures	**(20)**	**(10)**	**(30)**	—	(4)	(4)
Other interest-bearing liabilities	**66**	**(62)**	**4**	87	(19)	68
Total interest expense	**484**	**(587)**	**(103)**	1,002	(4,278)	(3,276)
Net interest income	**$ 249**	**$ (542)**	**$ (293)**	$ 199	$ 425	$ 624

(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.

TABLE 7 **Net interest income on average assets and liabilities**

(C$ millions, except percentage amounts)	Average balances (1)			Interest (2)			Average rate		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Assets									
Deposits with banks									
Canada	**$ 428**	$ 367	$ 449	**$ 9**	$ 7	$ 18	**2.10%**	1.91%	4.01%
United States	**6,688**	5,631	6,035	**101**	143	335	**1.51**	2.54	5.55
Other International	**10,675**	9,751	10,119	**266**	333	478	**2.49**	3.42	4.72
	17,791	15,749	16,603	**376**	483	831	**2.11**	3.07	5.01
Securities									
Trading account	**71,148**	65,422	51,429	**1,908**	1,945	2,143	**2.68**	2.97	4.17
Investment account	**31,441**	25,171	21,154	**815**	880	906	**2.59**	3.50	4.28
Loan substitute	**354**	407	463	**17**	27	26	**4.80**	6.63	5.62
	102,943	91,000	73,046	**2,740**	2,852	3,075	**2.66**	3.13	4.21
Assets purchased under reverse repurchase agreements	**41,565**	35,463	29,591	**787**	651	1,163	**1.89**	1.84	3.93
Loans (3)									
Canada									
Residential mortgage	**69,911**	65,901	62,448	**3,896**	3,903	4,087	**5.57**	5.92	6.54
Personal	**27,201**	26,631	28,089	**1,837**	1,734	2,325	**6.75**	6.51	8.28
Credit card	**5,197**	4,354	4,586	**615**	519	556	**11.83**	11.92	12.12
Business and government	**26,259**	28,650	32,347	**1,842**	1,291	1,281	**7.01**	4.51	3.96
	128,568	125,536	127,470	**8,190**	7,447	8,249	**6.37**	5.93	6.47
United States	**28,189**	29,784	20,295	**1,388**	1,791	1,699	**4.92**	6.01	8.37
Other International	**11,884**	11,348	12,541	**572**	1,225	2,084	**4.81**	10.79	16.62
	168,641	166,668	160,306	**10,150**	10,463	12,032	**6.02**	6.28	7.51
Total interest-earning assets	**330,940**	308,880	279,546	**14,053**	14,449	17,101	**4.25**	4.68	6.12
Non-interest-bearing deposits with banks	**1,947**	1,753	1,188						
Customers' liability under acceptances	**6,838**	8,515	9,890						
Other assets	**56,675**	48,152	36,476						
Total assets	**$396,400**	$367,300	$327,100	**$14,053**	$14,449	$17,101	**3.55%**	3.93%	5.23%
Liabilities and shareholders' equity									
Deposits (4)									
Canada	**$121,690**	$111,880	$110,228	**$ 3,311**	$ 2,964	$ 4,712	**2.72%**	2.65%	4.27%
United States	**40,131**	40,036	29,354	**564**	787	1,415	**1.41**	1.97	4.82
Other International	**68,316**	68,584	60,275	**1,577**	1,958	2,585	**2.31**	2.85	4.29
	230,137	220,500	199,857	**5,452**	5,709	8,712	**2.37**	2.59	4.36
Obligations related to securities sold short	**22,898**	19,912	16,509	**839**	797	654	**3.66**	4.00	3.96
Obligations related to assets sold under repurchase agreements	**22,522**	19,630	19,892	**552**	414	894	**2.45**	2.11	4.49
Subordinated debentures	**6,455**	6,804	6,805	**376**	406	410	**5.82**	5.97	6.02
Other interest-bearing liabilities	**7,889**	5,546	3,042	**192**	188	120	**2.43**	3.39	3.94
Total interest-bearing liabilities	**289,901**	272,392	246,105	**7,411**	7,514	10,790	**2.56**	2.76	4.38
Non-interest-bearing deposits	**20,640**	19,897	18,568						
Acceptances	**6,838**	8,515	9,890						
Other liabilities	**60,260**	47,974	36,621						
Total liabilities	**377,639**	348,778	311,184	**7,411**	7,514	10,790	**1.96**	2.15	3.47
Shareholders' equity									
Preferred	**1,210**	1,713	2,073						
Common	**17,551**	16,809	13,843						
Total liabilities and shareholders' equity	**$396,400**	$367,300	$327,100	**$ 7,411**	$ 7,514	$10,790	**1.87%**	2.05%	3.30%

Net interest income as a % of total average assets	**$396,400**	$367,300	$327,100	**$ 6,642**	$ 6,935	$ 6,311	**1.68%**	1.89%	1.93%
Net interest income as a % of total average interest-earning assets									
Canada	**$199,292**	$196,321	$182,904	**$ 5,186**	$ 5,472	$ 5,512	**2.60%**	2.79%	3.01%
United States	**59,368**	51,144	37,865	**1,188**	1,106	371	**2.00**	2.16	.98
Other International	**72,280**	61,415	58,777	**268**	357	428	**.37**	.58	.73
Total	**$330,940**	$308,880	$279,546	**$ 6,642**	$ 6,935	$ 6,311	**2.01%**	2.25%	2.26%

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

(2) Interest income includes loan fees of $303 million (2002 — $321 million; 2001 — $328 million).

(3) Average balances include impaired loans and are net of allowances for credit losses.

(4) Deposits include savings deposits with average balances of $38 billion (2002 — $39 billion; 2001 — $38 billion), interest expense of $.3 billion (2002 — $.3 billion; 2001 — $.6 billion) and average rates of ..78% (2002 — .69%; 2001 — 1.58%). Deposits also include term deposits with average balances of $160 billion (2002 — $155 billion; 2001 — $145 billion), interest expense of $4.1 billion (2002 — $4.4 billion; 2001 — $6.9 billion) and average rates of 2.53% (2002 — 2.85%; 2001 — 4.80%).

Non-interest income

As shown in Table 8 on page 41A, non-interest income was up $456 million, or 4%, from 2002, despite a $390 million decline in the translated value of U.S. dollar-denominated revenues, for the reasons discussed below.

Insurance premiums, investment and fee income were up $313 million or 15%, largely due to a $228 million increase associated with the acquisition of Business Men's Assurance Company of America on May 1, 2003, an $83 million increase in investment income associated with customer holdings of Universal Life products and a $66 million increase in home & auto insurance revenues. Trading revenues were up $243 million or 14%, largely in fixed income and money market trading, reflecting the impact of the favourable interest rate environment on trading revenues. Gain (loss) on sale of investment account securities was up $142 million, largely due to $111 million of net losses on sale of investment account securities in 2002 that did not recur this year. Deposit and payment service charges were up $37 million or 4% due to higher automated banking machine revenues and payment processing volumes. Underwriting and other advisory fees were up $28 million, or 4%, reflecting an improvement in capital markets activity in the last six months of

TABLE 8 **Non-interest income**

(C$ millions, except percentage amounts)	2003	2002	2001	2003 vs 2002 Increase (decrease)	
Insurance premiums, investment and fee income	**$ 2,356**	$ 2,043	$ 1,824	**$ 313**	**15%**
Trading revenues	**2,009**	1,766	1,820	**243**	**14**
Investment management and custodial fees	**1,143**	1,177	1,094	**(34)**	**(3)**
Securities brokerage commissions	**1,108**	1,223	1,045	**(115)**	**(9)**
Deposit and payment service charges	**1,078**	1,041	887	**37**	**4**
Mutual fund revenues	**673**	723	692	**(50)**	**(7)**
Underwriting and other advisory fees	**671**	643	478	**28**	**4**
Card service revenues	**518**	496	458	**22**	**4**
Foreign exchange revenues, other than trading	**279**	276	303	**3**	**1**
Credit fees	**227**	223	237	**4**	**2**
Mortgage banking revenues	**198**	222	206	**(24)**	**(11)**
Securitization revenues	**165**	174	123	**(9)**	**(5)**
Gain (loss) on sale of investment account securities	**31**	(111)	(130)	**142**	**n.m.**
Gain from divestitures (1)	**—**	—	445	**—**	**—**
Other	**320**	424	283	**(104)**	**(25)**
Total	**$10,776**	$10,320	$ 9,765	**$ 456**	**4%**

(1) Gain on divestitures in 2001 included $89 million on formation of Moneris Solutions joint venture, $43 million on sale of Group Retirement Services and $313 million on sale of RT Capital Management.

n.m. not meaningful

the fiscal year, and card service revenues were up $22 million or 4% due to higher retail transaction volumes. However, investment management and custodial fees were down $34 million, or 3%, and mutual fund revenues were $50 million, or 7% lower, reflecting weak equity markets in the first six months of the year. Mortgage banking revenues (which relate to mortgages originated in the U.S. by RBC Centura and its subsidiary RBC Mortgage) were down $24 million or 11%, reflecting additional hedging and other costs in the fourth quarter of 2003. Securities brokerage commissions were down $115 million or 9%, reflecting weak equities markets and the resultant lower client trading volumes during the first half of the year. Other non-interest income declined by $104 million or 25%, mainly due to a $60 million charge for equity losses on private equity investments. The losses on private equity investments related largely to the four years ended October 31, 2003. These losses were recognized as a result of our determination that certain private equity investments should be accounted for using the equity method of accounting rather than the previously applied cost method of accounting.

Non-interest income accounted for 62% of total revenues, up from 60% in 2002.

TABLE 9 **Trading revenues**

(C$ millions)	2003	2002	2001
Net interest income (1)	**$ 73**	$ 127	$ (68)
Non-interest income (2)	**2,009**	1,766	1,820
Total	**$ 2,082**	$ 1,893	$ 1,752
By product			
Equity	**$ 614**	$ 753	$ 684
Fixed income and money markets (3)	**1,167**	876	726
Foreign exchange contracts (4)	**301**	264	342
Total	**$ 2,082**	$ 1,893	$ 1,752

(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 government securities and corporate debt instruments, swaps, interest rate options, interest rate futures and forward rate agreements.

(4) Includes primarily foreign exchange spot, forward, futures and options contracts as well as commodity and precious metals.

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. Proprietary trading activities are strictly managed in accordance with Value-At-Risk (VAR) and trading limits and we continue to conduct the majority of client-related trading in the major G7 markets and currencies. A description of trading revenues included in net interest income and non-interest income is provided in Table 9 above.

As shown in Table 9 above, total trading revenues were up $189 million or 10% in 2003. Fixed income and money market trading revenues increased by $291 million, or 33%, reflecting the impact of the favourable interest rate environment, which resulted in higher bond trading revenues in international and domestic markets. Structured products, including credit derivatives, also experienced better results as a result of growth in client volumes and favourable trading returns. Foreign exchange contract trading revenues increased by $37 million, or 14%, due to higher volumes in both spot and derivative markets as global currency volatility increased. Increased sales and marketing efforts have enhanced foreign exchange trading volumes with institutional and corporate clients, while prudent risk taking and analytics contributed to higher trading revenues. Equity trading revenues decreased by $139 million, or 18%. Institutional equity trading volumes in listed and OTC markets declined during the year.

Financial priority: Cost control

Highlight

- Non-interest expense was unchanged from 2002

Non-interest expense was unchanged from 2002. While the stronger Canadian dollar relative to the U.S. dollar reduced translated value of non-interest expense by $340 million, this reduction was offset by increases in pension and other postretirement benefit costs, costs related to further automating our retail banking technology infrastructure and expanding our retail banking sales force in Canada and costs relating to companies we acquired during the year.

As shown in Table 10 on page 43A, human resources costs increased by $133 million or 2% in 2003, reflecting a $142 million or 18% increase in benefits expense. The increase in benefits expense was principally due to a $56 million increase in pension benefit expense (largely due to the amortization of prior year actuarial losses resulting from lower asset returns and a lower discount rate used to value pension liabilities in 2003). Other postretirement benefit expense increased by $69 million, primarily due to the amortization of actuarial losses resulting from higher claims experiences and a lower discount rate used to value other post-retirement benefit liabilities in 2003 (see Note 17 on page 90A). Salaries increased by $58 million or 2%, largely due to the additional salaries associated with expanding our retail banking sales force in Canada and salaries associated with acquisitions that closed in 2003 (Admiralty Bancorp, Business Men's Assurance Company of America and Sterling Capital Mortgage Company). Stock compensation costs were up $18 million, reflecting the issuance of deferred shares. Acquisition retention compensation costs declined by $74 million to $84 million. We expect retention compensation costs relating to pre-2004 acquisitions to fall to approximately $45 million in 2004 and to $20 million in 2005.

Professional fees were up $47 million or 11% due to an increase in fees paid to external service providers to deal with increased volumes at RBC Mortgage and also an increase in systems upgrade and conversion costs at RBC Centura. Equipment costs were up $14 million or 2%. However, outsourced item processing costs were down $14 million or 5%, occupancy costs were down $21 million or 3%, communications costs were down $44 million or 5% and other costs were down $125 million or 14%.

Continuing our focus on cost control

The cost control initiatives undertaken in 2003 and in prior years are continuing to yield favourable results. Despite higher costs associated with growing our business, enhancing the client experience, and investing in new sales positions and technology, non-interest expense was essentially unchanged from 2002, aided by a stronger Canadian dollar, which reduced the translated value of U.S. dollar-denominated expenses.

RBC Banking continued its monitoring and containment of controllable expenses and focused on a number of initiatives. Discretionary expenses in Canada, which include stationery, professional fees and travel, were reduced by 9% from a year ago, select internal reports were eliminated, and we discontinued mailing cancelled cheques with interim statements to business clients, generating $30 million of savings in total. In the U.S., RBC Centura continued to integrate functions into RBC Royal Bank to take advantage of our Canadian operations' scale and expertise and to reduce costs. In 2002, RBC Centura's mainframe computer processing was relocated into the main processing centre in Ontario, generating cost savings in 2003, in addition to increasing scale and performance.

Moving into 2004, we expect savings from a new service platform for tellers, which we expect to begin using in January 2004 and which will simplify and streamline transaction processing and should also enhance client service levels. We also expect to realize savings from a new real-time image based tracing system, which replaces the current manual process used to resolve client issues and further enhances our fraud detection and prevention capability. However, we will continue to invest in providing standardized and flexible solutions across client segments, channels and products. These investments are expected to result in a superior client experience and net cost savings commencing in 2007 but expense outlays that exceed revenue benefits and cost savings prior to that time. In 2004, RBC Centura will continue to focus on reducing costs and improving efficiency. All in all, we are aiming to grow RBC Banking expenses by at least 2 percentage points less than revenues in each of the next three years.

RBC Insurance realized cost savings in 2003 through the introduction of a number of initiatives geared to reducing costs and enhancing efficiency. For example, the insurance operation consolidated a number of business locations, both in Canada and the U.S., to leverage existing capacity and improve service levels. In addition, RBC Insurance consolidated its technology services into a single group in order to build an integrated North American technology organization for the business. RBC Insurance also integrated recently acquired BMA into its existing operations, including moving the administration of a fixed block of business to its Greenville, South Carolina, operations in less than 30 days following the close, achieving cost reductions in excess of 30% of the pre-acquisition cost base.

At RBC Investments, the cost-cutting program, initiated in 2001 to offset the effects of market weakness, continued into 2003 and is expected to further progress in 2004. In 2003, cost savings were achieved by reducing overhead costs through integration of select branch offices and support facilities of the Canadian full-service brokerage business, restructuring the U.S. and Caribbean private banking units and right-sizing the U.S. brokerage business in response to the weak market environment during the first six months of the fiscal year. RBC Dain Rauscher achieved cost savings through the realization of the full year benefit of the prior year's integration of Tucker Anthony Sutro, which was acquired on October 31, 2001, by realizing the remaining US$30 million of the originally targeted US$60 million of annual integration cost savings.

RBC Capital Markets achieved expense reductions in 2003 through a number of initiatives. It continued to integrate the Investment Banking and Global Equity operations in the U.S. During the year, primary Nasdaq trading functions were moved from Minneapolis to New York to increase operational efficiency, while sales and trading positions that covered East coast accounts were relocated from Minneapolis to New York to better align them with the markets they serve. Also, trading operations groups in London and Toronto were integrated to eliminate duplicate and inefficient processes and generate cost savings. In addition, we are continuing to reduce loan portfolio management costs (including those relating to the structured lending portfolio). A lending process review, undertaken in 2003, has resulted in ongoing process changes that are expected to provide savings into 2004 and beyond. RBC Capital Markets will continue its focus on cost control in 2004.

TABLE 10 **Non-interest expense**

(C$ millions, except percentage amounts)	2003	2002	2001	2003 vs 2002 Increase (decrease)	
Human resources					
Salaries (1)	**$ 3,282**	$ 3,224	$ 2,770	**$ 58**	**2%**
Variable compensation	**2,084**	2,095	2,056	**(11)**	**(1)**
Acquisition-related retention compensation	**84**	158	176	**(74)**	**(47)**
Benefits	**925**	783	698	**142**	**18**
Stock compensation (2)	**73**	55	23	**18**	**33**
	6,448	6,315	5,723	**133**	**2**
Occupancy					
Net premises rent	**579**	595	561	**(16)**	**(3)**
Premises repairs and maintenance	**72**	70	55	**2**	**3**
Depreciation	**95**	103	91	**(8)**	**(8)**
Property taxes	**11**	11	6	**—**	**—**
Energy	**18**	17	11	**1**	**6**
	775	796	724	**(21)**	**(3)**
Equipment					
Office and computer rental and maintenance (1)	**531**	516	473	**15**	**3**
Depreciation	**303**	304	298	**(1)**	**—**
	834	820	771	**14**	**2**
Communications					
Telecommunication	**328**	361	290	**(33)**	**(9)**
Marketing and public relations	**212**	211	180	**1**	**—**
Postage and courier	**113**	121	108	**(8)**	**(7)**
Stationery and printing	**104**	108	108	**(4)**	**(4)**
	757	801	686	**(44)**	**(5)**
Professional fees (1)	**466**	419	412	**47**	**11**
Outsourced item processing	**292**	306	303	**(14)**	**(5)**
Amortization of goodwill	**—**	—	248	**—**	**—**
Amortization of other intangibles	**71**	72	36	**(1)**	**(1)**
Other					
Business and capital taxes	**144**	129	171	**15**	**12**
Travel and relocation	**140**	144	121	**(4)**	**(3)**
Employee training	**39**	46	43	**(7)**	**(15)**
Donations	**38**	41	35	**(3)**	**(7)**
Other (1)	**405**	531	482	**(126)**	**(24)**
	766	891	852	**(125)**	**(14)**
Total	**$10,409**	$10,420	$ 9,755	**$ (11)**	**—**

(1) Includes, in 2001, a U.S. retail banking restructuring charge comprising salaries of $22 million, office and computer rental and maintenance of $42 million, professional fees of $21 million and other of $6 million.

(2) Includes the cost of stock options, stock appreciation rights and performance deferred shares.

RBC Global Services realized cost savings in 2003 through a number of initiatives. Institutional & Investor Services undertook a review of common processes across the various business units to enhance efficiency and reduce costs, which resulted in a number of initiatives including the creation of a global account reconciliation services unit to perform account reconciliation activities for all domestic and global operations and the centralization of securities trade processing in Canada into one specialized unit. Treasury Management & Trade realized cost savings through a number of process improvement and technology initiatives, including the migration of regional electronic business banking support functions into its national client service centre and the introduction of a streamlined technology-based client enrollment process in its cash management business. These initiatives are expected to deliver cost savings in excess of $5 million annually.

In addition to each platform undertaking its own cost-containment initiatives, we have an E ^{2} (efficiency and effectiveness) effort underway throughout the group. In this regard, throughout 2003, we continued to review infrastructure and functional costs on an enterprise-wide basis, with the objective of eliminating duplication across businesses and functions and creating shared services to leverage centres of expertise. In 2004, we will review several larger initiatives to develop common systems and operational processes, enabling us to build a strong infrastructure to support our business expansion plans. This should also free up resources that can be redirected to enhancing client service and growing revenue.

TABLE 11 **Taxes**

(C$ millions, except percentage amounts)	2003	2002	2001
Income taxes	**$ 1,460**	$ 1,365	$ 1,340
Other taxes			
Goods and services and sales taxes	**220**	224	221
Payroll taxes	**267**	245	237
Capital taxes	**124**	107	146
Property taxes (1)	**11**	11	6
Business taxes	**20**	22	25
Insurance premium taxes	**26**	22	21
	668	631	656
Total	**$ 2,128**	$ 1,996	$ 1,996
Effective income tax rate (2)	**31.8%**	32.2%	34.7%
Effective total tax rate (3)	**40.5%**	41.0%	44.2%

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

(2) Income taxes, as a percentage of net income before income taxes.

(3) Total income and other taxes as a percentage of net income before income and other taxes.

Income and other taxes

Our operations are subject to a variety of taxes, including taxes on income and capital assessed by Canadian federal and provincial governments and the governments of foreign jurisdictions where we operate. Taxes are also assessed on expenditures or supplies consumed in support of our operations.

Income and other taxes shown in Table 11 above were $2,128 million in 2003, comprising income taxes of $1,460 million and other taxes of $668 million. Income taxes increased by $95 million from 2002, largely due to higher net income before tax. Other taxes increased by $37 million, largely due to an increase in the amount of payroll and capital taxes paid.

As shown above, the effective income tax rate decreased from 32.2% in 2002 to 31.8% in 2003, 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, we recorded income taxes of $1,065 million in 2003 ($125 million in 2002) in shareholders' equity as shown in Note 15 on page 88A.

Financial priority: Strong credit quality

Highlights

- Business and government loans and acceptances decreased from 32% of total loans, acceptances and reverse repurchase agreements in 2002 to 28% at October 31, 2003
- Gross impaired loans down 24% to lowest level since 2000
- Net impaired loans to total loans, acceptances and reverse repurchase agreements down from .65% to .46%
- Provision for credit losses down 32% to $.7 billion, lowest level since 2000
- Specific provision ratio of .33%, down from .51%
- Net write-offs ratio of .37%, down from .60%
- Allowance for credit losses down slightly from $2.3 billion to $2.2 billion

Loan portfolio

During 2003, our loan portfolio performed well, reflecting changes in our credit practices adopted over the past few years. Three significant items affected the portfolio during 2003. The first item relates to our continued efforts to move towards a lower-risk portfolio mix, which includes more residential mortgage loans and fewer corporate loans, which entail higher risk and capital underpinning. As shown in the charts below, business and government loans and acceptances decreased to 28% of total loans, acceptances and reverse repurchase agreements in 2003 from 38% in 1999. A significant portion of this change occurred in 2003. The second item relates to our efforts to reduce exposure to the more sensitive and capital intensive sectors. The third item relates to further acquisitions in connection with our U.S. expansion strategy.

The portion of our business and government credit exposure rated investment grade remained relatively flat, moving from 70% in 2002 to 69% in 2003. Business and government loans include our small business portfolio of $9.7 billion, which is generally rated lower than our exposures to larger businesses.

Table 12 on page 47A and Table 17 on page 52A provide a detailed breakdown of loans, acceptances and reverse repurchase agreements. Our loan portfolio continues to be well diversified. Business and government loans and acceptances declined in 2003 due to our strategy of exiting non-core client relationships in RBC Capital Markets, the implementation of new single-name limits and an overall decline in demand for credit as corporate balance sheets have strengthened.

Our efforts to reduce business and government loans are reflected by decreases in various sectors. Decreases in the energy sector occurred in Canada ($1.2 billion), the United States ($1.5 billion) and other international ($.4 billion). The energy sector has been affected by two items in particular. Loans to the oil and gas (exploration and production) sub-sector have declined as a result of consolidation in the industry and our efforts to reduce single-name concentrations. The other factor has been a concerted effort to reduce exposure to the sensitive power generation and distribution sub-sector where loan outstandings have declined by 41% from 2002 to $1.2 billion.

Transportation and environment loans exposure decreased by $1.1 billion in total. Decreases occurred in both Canada ($.3 billion) and international ($.8 billion). Airlines and aerospace loans have been identified as a sensitive sub-sector and targeted for reduction. Over the year loans outstanding were down $.4 billion or 35% to $.7 billion. The decrease in international includes a reduction in loan outstandings ($.5 billion) to a particular counterparty in the United Kingdom.

Loans to telecommunications companies are also being actively managed down. Loan outstandings have decreased by 69% from $1.7 billion at year-end 2002 to only $.5 billion at the end of 2003. The decreases are spread out over Canada, United States and other international.

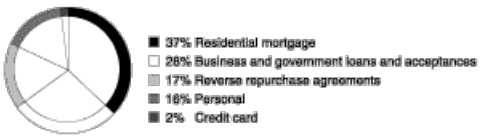
Loans to hotels, restaurants and entertainment companies have decreased $.3 billion or 10% to $2.8 billion. Approximately 38% of these loans are reported in the small business sector with the remainder in the Other sector.

Although the overall business and government portfolio decreased, there were some increases in certain areas related to our U.S. expansion strategy. During 2003 we acquired Admiralty Bancorp, Inc. (Admiralty) and Business Men's Assurance Company of America (BMA). The loans in BMA back the actuarial liabilities of the company. The increase in commercial real estate of $.9 billion in the U.S. reflects an increase of $1.5 billion resulting from the acquisitions of Admiralty and BMA which has been partially offset by other reductions.

From a risk management perspective, the sectors that utilize the most Economic Capital (EC) are commercial real estate, energy and telecommunications. For a discussion of EC see page 54A. As noted above, our real estate exposure has increased as a result of our U.S. expansion strategy but we are committed to managing this exposure. Although EC related to the energy and telecommunication sectors remains high, significant progress has been made in reducing outstandings.

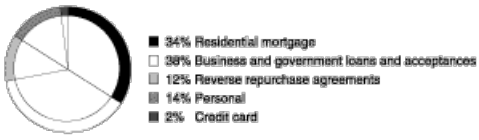
Breakdown of loans, acceptances and reverse repurchase agreements portfolio (2003)

Significant change...



Breakdown of loans, acceptances and reverse repurchase agreements portfolio (1999)

...in portfolio mix



Impaired loans

Loans are generally classified as impaired (meaning interest is no longer being accrued) under conditions described in Note 1 on page 72A.

As indicated in Table 13 on page 48A, gross impaired loans decreased by $543 million or 24% during the year to $1,745 million. Although write-offs decreased from $1,457 million in 2002 to $982 million in 2003, the significant decrease in net additions from $1,280 million in 2002 to $439 million in 2003 resulted in an overall decrease in gross impaired loans. Gross impaired loans declined in both the consumer and the business and government loan portfolios and are at their lowest level since 2000.

Gross impaired loans in the consumer portfolio declined by $71 million to $366 million, with Canada accounting for $54 million of the reduction. New additions declined, resulting from continued improvements in the portfolio due to benefits realized from the prior implementation of advanced risk modeling technology designed to optimize risk-reward and enhance credit policies and procedures.

Business and government gross impaired loans fell $472 million to $1,379 million, with reductions of $154 million in Canada, $205 million in the U.S. and $113 million in other international. In Canada, the reductions were spread over various sectors including small business ($36 million), forest products ($30 million) and transportation and environment ($20 million). The level of small business impaired loans continues to decline as a result of enhanced underwriting, monitoring and collection processes. The decrease in forest products largely relates to one particular counterparty. The reduction in transportation and environment results from the resolution of a significant land transportation account partially offset by the impairment of a Canadian transportation account. In the United States, at the end of 2003, there were no impaired telecommunications loans compared to a gross impaired amount of $77 million in 2002. This reduction largely resulted from the write-off, repayment and sale of impaired loans from 2002. The other decreases were spread over various industries. In other international, gross impaired loans in the mining and metals sector decreased by $71 million. This was largely due to one loan recovery. During the second half of the year, new impaired loan formations declined.

At the end of 2003, approximately 70% of the original impaired loan amount (amount when a loan was originally classified as impaired) in RBC Capital Markets has been written-off or specifically provided for.

Net impaired loans as a percentage of related loans, acceptances and reverse repurchase agreements decreased to .46% from .65% in 2002, reflecting improvements in both the Canadian and international ratios, as shown in Table 18 on page 52A.

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 $721 million in 2003, down $344 million from 2002, as shown in Table 14 on page 49A. This was the lowest level since 2000.

In the consumer portfolio, the specific provision for credit losses decreased by $13 million, resulting from a decline of $18 million in Canada, partially offset by small increases in the United States and other international. The decline in Canada reflected a reduction in personal partially offset by an increase in credit card. Although the specific provisions for credit cards increased, the ratio to average balances decreased from 3.10% in 2002 to 2.92% in 2003, as shown in Table 18 on page 52A. This indicated that credit quality of the cards portfolio is being maintained as volume grows.

The specific provision on business and government loans decreased by $331 million or 52% to $304 million in 2003. The largest decrease related to telecommunications loans ($256 million) as this sector was provisioned for in prior years and only a small amount ($5 million) was required during the current year.

We acquire credit protection on portions of our portfolio by entering into credit derivative contracts. This year's provision for credit losses included an amount related to a European energy account that was classified as impaired. The provision for credit losses was partially offset by a gain of $29 million on a related credit derivative, recorded in non-interest income. Management believes an analysis that nets credit derivative gains on accounts in default against the related provision for credit losses is useful since it reflects the full loss associated with such accounts and management considers such information when evaluating our credit exposures. Management also believes that investors may find this information useful in their assessment of our credit quality and risk management.

As shown in Table 18 on page 52A, the specific provision for credit losses amounted to .33% of average loans, acceptances and reverse repurchase agreements (.32% net of the effect of credit derivatives), down from .51% in 2002 (.49% net of the effect of credit derivatives) and well below our 2003 objective of .45-.55%.

Outlook

In 2004, we expect an allocated specific provision for credit losses ratio in the range of .35-.45%, consistent with our medium-term goal.

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 based on our assessment of problem accounts on an ongoing basis, 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 analyses, which are adjusted to take into account management's assessment of underlying assumptions in relation to the current environment. As a result, the allowance for credit losses will not likely equal the actual losses incurred in the future. To minimize these differences, management undertakes an assessment of the methodology utilized and its underlying assumptions on a regular basis.

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

As shown in Table 15 on page 50A, the allowance for credit losses decreased by $150 million or 6% from 2002 to $2,164 million, consistent with the reduction in impaired loans over the same period. During the year, write-offs, net of recoveries, declined to $812 million or .37% of average loans, acceptances and reverse repurchase agreements, from $1,259 million or .60% a year ago as write-offs taken in 2002 in certain sectors such as telecommunications were not required in 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. The strategies we use to minimize concentration risk are discussed further under risk mitigation in the Risk management section on page 55A.

As shown in Table 12 on page 47A, the largest Canadian exposure is in Ontario, which has 38% of total loans, acceptances and reverse repurchase agreements. Internationally, the largest concentration is in the U.S., where we have 14% of our total loans, acceptances and reverse repurchase agreements.

The largest sector concentrations, excluding small business, are in financial services, commercial real estate and agriculture with 4%, 4% and 2% of loans, acceptances and reverse repurchase agreements, respectively.

Table 16 on page 51A shows contractual amounts with clients outside of Canada. Of the total international contractual amounts, $72 billion or 18% of total assets are in the United States and $51 billion or 12% of total assets are outside Canada and the U.S.

TABLE 12 **Loans, acceptances and reverse repurchase agreements (1)**

(C$ millions, except percentage amounts)	2003	2002	2001	2000	1999	Percentage of total 2003	Percentage of total 1999
Canada							
Atlantic provinces (2)	**$ 10,021**	$ 9,770	$ 9,654	$ 9,690	$ 8,840	**4.7%**	5.1%
Quebec	**15,930**	15,190	13,863	16,191	14,936	**7.4**	8.6
Ontario	**80,831**	82,689	92,966	73,124	67,120	**37.6**	38.5
Prairie provinces (3)	**27,162**	26,989	25,192	29,402	25,521	**12.7**	14.6
British Columbia	**23,807**	23,367	22,696	25,118	23,141	**11.1**	13.2
Total Canada	**157,751**	158,005	164,371	153,525	139,558	**73.5**	80.0
Consumer							
Residential mortgage	**73,978**	67,700	64,066	61,444	58,524	**34.5**	33.5
Personal	**28,262**	25,918	27,202	27,207	24,353	**13.1**	14.0
Credit card	**4,663**	4,740	4,110	4,666	2,666	**2.2**	1.5
	106,903	98,358	95,378	93,317	85,543	**49.8**	49.0
Business and government loans and acceptances							
Small business (4)	**9,705**	9,470	9,788	11,701	10,334	**4.5**	5.9
Agriculture	**4,546**	4,427	4,758	4,931	4,217	**2.1**	2.4
Commercial mortgages	**2,616**	2,468	2,635	2,961	2,635	**1.2**	1.5
Consumer goods	**2,183**	2,238	2,447	2,874	2,086	**1.0**	1.2
Commercial real estate	**2,091**	2,393	2,325	2,594	2,400	**1.0**	1.4
Energy	**1,703**	2,911	4,293	3,754	3,350	**.8**	1.9
Government	**1,629**	1,039	1,597	1,385	2,105	**.8**	1.2
Automotive (5)	**1,472**	1,370	864	673	611	**.7**	.3
Industrial products	**1,372**	1,569	2,174	2,470	2,301	**.6**	1.3
Transportation and environment (5)	**1,112**	1,450	2,138	1,519	1,562	**.5**	.9
Forest products	**956**	954	1,275	1,362	1,151	**.4**	.7
Financial services	**856**	3,015	3,010	2,218	1,567	**.4**	.9
Media and cable (6)	**839**	994	1,510	1,120	1,135	**.4**	.7
Mining and metals	**333**	361	636	897	845	**.2**	.5
Telecommunication	**169**	487	677	1,008	525	**.1**	.3
Information technology	**114**	191	203	210	191	**.1**	.1
Other	**4,156**	5,194	5,803	6,437	4,650	**1.9**	2.7
	35,852	40,531	46,133	48,114	41,665	**16.7**	23.9
Reverse repurchase agreements	**14,996**	19,116	22,860	12,094	12,350	**7.0**	7.1
Total Canada	**157,751**	158,005	164,371	153,525	139,558	**73.5**	80.0
International							
United States	**30,861**	32,442	29,879	15,939	17,247	**14.4**	9.9
Europe, Middle East and Africa	**21,949**	19,006	16,860	9,782	9,642	**10.2**	5.5
Caribbean	**1,941**	2,018	1,856	2,059	1,502	**.9**	.9
Latin America	**646**	1,400	1,680	1,842	2,309	**.3**	1.3
Asia	**729**	1,004	1,328	1,781	2,417	**.3**	1.4
Australia and New Zealand	**804**	1,468	1,207	1,218	1,693	**.4**	1.0
Total international	**56,930**	57,338	52,810	32,621	34,810	**26.5**	20.0
Consumer							
Residential mortgage	**4,839**	5,140	3,376	1,540	718	**2.2**	.4
Personal	**5,741**	6,038	5,309	812	902	**2.7**	.5
Credit card	**153**	174	173	—	—	**.1**	—
	10,733	11,352	8,858	2,352	1,620	**5.0**	.9
Business and government loans and acceptances							
Consumer goods	**983**	1,383	1,699	1,111	1,411	**.4**	.8
Commercial real estate	**5,984**	5,124	4,082	271	464	**2.8**	.3
Energy	**1,872**	3,731	2,994	3,051	3,887	**.9**	2.2

Government	**126**	130	128	167	773	**.1**	.4
Automotive	**323**	411	527	513	878	**.1**	.5
Industrial products	**532**	1,199	2,116	1,749	1,325	**.2**	.8
Transportation and environment	**1,676**	2,442	1,571	1,487	1,975	**.8**	1.1
Forest products	**193**	417	385	468	549	**.1**	.3
Financial services	**7,445**	6,542	9,347	7,912	6,937	**3.5**	4.0
Media and cable (6)	**949**	1,321	1,380	2,033	1,909	**.4**	1.1
Mining and metals	**565**	1,192	1,071	901	881	**.3**	.5
Telecommunication	**371**	1,246	1,558	2,244	1,206	**.2**	.7
Information technology	**81**	180	396	433	709	**—**	.4
Other	**3,804**	3,953	3,688	1,720	2,364	**1.8**	1.5
	24,904	29,271	30,942	24,060	25,268	**11.6**	14.6
Reverse repurchase agreements	**21,293**	16,715	13,010	6,209	7,922	**9.9**	4.5
Total international	**56,930**	57,338	52,810	32,621	34,810	**26.5**	20.0
Total loans, acceptances and reverse repurchase agreements	**214,681**	215,343	217,181	186,146	174,368	**100%**	100%
Allowance for loan losses	**(2,055)**	(2,203)	(2,278)	(1,871)	(1,884)		
Total	**$212,626**	$213,140	$214,903	$184,275	$172,484		

(1) Based on residence of borrower.

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

(3) Comprises Manitoba, Saskatchewan and Alberta.

(4) Comprises the following industries in 2003: commercial real estate of $1,777 million (2002 — $1,737 million; 2001 — $1,788 million), consumer goods of $1,777 million (2002 —$1,583 million; 2001 — $1,665 million), industrial products of $952 million (2002 — $887 million; 2001 — $916 million), transportation and environment of $503 million (2002 —$552 million; 2001 — $605 million), automotive of $462 million (2002 — $377 million; 2001 — $434 million), forest products of $298 million (2002 — $278 million; 2001 — $296 million), energy of $137 million (2002 — $125 million; 2001 — $157 million), information technology of $113 million (2002 — $93 million; 2001 — $133 million), mining and metals of $65 million (2002 — $69 million; 2001 — n.a.), financial services of $136 million (2002 — $132 million; 2001 — $96 million), media and cable of $81 million (2002 — $77 million; 2001 — $84 million), telecommunications of $48 million (2002 — $34 million; 2001 — $45 million), and other of $3,356 million (2002 — $3,526 million; 2001 — $3,569 million).

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

(6) Includes cable loans of $236 million in Canada in 2003(2002 — $267 million; 2001 — $330 million; 2000 — $262 million; 1999 — $169 million) and $432 million internationally in 2003 (2002 — $634 million; 2001 — $625 million; 2000 — $1,321 million; 1999 — $850 million).

TABLE 13 **Impaired loans**

(C$ millions, except percentage amounts)	2003		2002		2001	2000	1999
	Gross	Net (1)	Gross	Net (1)	Net (1)	Net (1)	Net (1)
Canada							
Atlantic provinces (2)	**$ 81**	**$ 44**	$ 107	$ 55	$ 67	$ 65	$ 37
Quebec	**155**	**85**	90	60	204	121	158
Ontario	**348**	**199**	471	261	330	287	190
Prairie provinces (3)	**140**	**79**	177	98	71	57	109
British Columbia	**340**	**219**	427	292	335	266	287
Total Canada	**1,064**	**626**	1,272	766	1,007	796	781
Consumer							
Residential mortgage	**110**	**98**	102	87	118	157	131
Personal	**213**	**84**	275	112	129	51	66
	323	**182**	377	199	247	208	197
Business and government							
Small business (4)	**169**	**80**	205	104	132	141	134
Agriculture (4)	**127**	**90**	141	97	86	39	49
Commercial mortgages	**24**	**18**	17	8	5	—	7
Consumer goods	**32**	**17**	47	26	5	23	19
Commercial real estate	**8**	**4**	23	11	44	41	109
Energy	**1**	**1**	1	1	9	—	32
Automotive	**—**	**—**	10	3	5	4	—
Industrial products	**18**	**5**	23	12	26	18	6
Transportation and environment	**118**	**62**	138	108	222	120	12
Forest products	**169**	**115**	199	156	184	180	197
Financial services	**3**	**3**	—	(1)	2	7	1
Media and cable	**15**	**13**	18	6	15	17	30
Mining and metals	**—**	**—**	—	—	1	(1)	(1)
Telecommunication	**8**	**3**	20	6	—	—	—
Information technology	**17**	**13**	6	2	7	(2)	2
Other	**32**	**20**	47	28	17	1	(13)
	741	**444**	895	567	760	588	584
Total Canada	**1,064**	**626**	1,272	766	1,007	796	781
International							
United States	**361**	**219**	584	355	375	69	25
Europe, Middle East and Africa	**116**	**21**	115	50	35	7	12
Caribbean	**66**	**47**	71	52	39	26	28
Latin America	**109**	**57**	217	154	5	3	3
Asia	**1**	**1**	3	—	3	2	35
Australia and New Zealand	**28**	**17**	26	17	19	—	—
Total international	**681**	**362**	1,016	628	476	107	103
Consumer							
Residential mortgage	**21**	**20**	29	26	35	5	6
Personal	**22**	**12**	31	17	8	**—**	**—**
	43	**32**	60	43	43	5	6
Business and government							
Consumer goods	**16**	**12**	10	7	7	—	2
Commercial real estate	**65**	**53**	75	62	49	1	4
Energy	**239**	**96**	242	139	—	(2)	3
Automotive	**7**	**6**	29	22	25	—	(3)
Industrial products	**7**	**2**	30	13	(2)	38	15
Transportation and environment	**18**	**7**	68	39	58	25	—
Financial services	**42**	**11**	77	46	24	(2)	22
Media and cable (5)	**71**	**57**	56	56	—	—	—
Mining and metals	**57**	**25**	128	90	29	6	2
Telecommunication	**—**	**—**	77	35	122	—	—

Information technology	**11**	**1**	48	17	70	—	—
Other	**105**	**60**	116	59	51	36	52
	638	**330**	956	585	433	102	97
Total international	**681**	**362**	1,016	628	476	107	103
Total (6), (7)	**$ 1,745**	**$ 988**	$ 2,288	$ 1,394	$ 1,483	$ 903	$ 884

(1) Net of specific allowance.

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

(3) Comprises Manitoba, Saskatchewan and Alberta.

(4) Includes government guaranteed portions of impaired loans of $39 million in small business in 2003 (2002 — $64 million; 2001 — $95 million; 2000 — $101 million; 1999 — $79 million) and $9 million in agriculture (2002 — $10 million; 2001 — $6 million; 2000 — $6 million; 1999 — $5 million).

(5) Consists entirely of cable loans.

(6) Includes foreclosed assets of $34 million in 2003 (2002 — $32 million; 2001 — $37 million; 2000 — $16 million; 1999 — $26 million).

(7) Past due loans greater than 90 days not included in impaired loans was $222 million in 2003 (2002 — $217 million; 2001 — $245 million).

TABLE 14 **Provision for credit losses**

(C$ millions, except percentage amounts)	2003	2002	2001	2000	1999
Canada					
Atlantic provinces (1)	**$ 46**	$ 59	$ 63	$ 58	$ 32
Quebec	**77**	(5)	43	22	71
Ontario	**309**	330	398	342	52
Prairie provinces (2)	**55**	86	81	64	95
British Columbia	**40**	59	104	40	192
Total Canada	**527**	529	689	526	442
Consumer					
Residential mortgage	**4**	3	8	—	4
Personal	**230**	266	265	301	172
Credit card	**152**	135	125	102	55
	386	404	398	403	231
Business and government					
Small business	**77**	110	164	105	113
Agriculture	**(2)**	22	20	4	2
Commercial mortgages	**(3)**	(5)	7	2	8
Consumer goods	**2**	19	2	7	11
Commercial real estate	**(14)**	(15)	15	(17)	9
Energy	**—**	4	17	(8)	12
Automotive	**—**	—	17	—	—
Industrial products	**2**	(7)	14	2	(10)
Transportation and environment	**69**	(19)	13	56	7
Forest products	**13**	4	7	(36)	81
Financial services	**(4)**	(27)	(9)	—	5
Media and cable	**1**	(7)	13	12	8
Mining and metals	**1**	(1)	—	(1)	1
Telecommunication	**5**	59	—	(1)	(32)
Information technology	**2**	3	3	8	8
Other	**(8)**	(15)	8	(10)	(12)
	141	125	291	123	211
Total Canada	**527**	529	689	526	442
International					
United States	**108**	440	377	99	45
Europe, Middle East and Africa	**64**	38	(1)	(9)	21
Caribbean	**8**	6	(6)	3	—
Latin America	**15**	57	5	2	2
Asia	**(1)**	(10)	(19)	(50)	20
Australia and New Zealand	**—**	5	4	—	—
Total international	**194**	536	360	45	88
Consumer					
Residential mortgage	**4**	7	—	—	1
Personal	**24**	15	5	—	—
Credit card	**3**	4	2	—	—
	31	26	7	—	1
Business and government					
Consumer goods	**8**	(2)	—	(7)	(10)
Commercial real estate	**5**	4	65	1	2
Energy	**78**	141	(8)	(2)	—
Automotive	**(1)**	1	7	(8)	(2)
Industrial products	**(1)**	5	3	34	31
Transportation and environment	**8**	21	8	42	**—**
Financial services	**3**	21	(3)	(21)	2
Media and cable	**26**	—	3	—	—
Mining and metals	**4**	28	—	2	15
Telecommunication	**—**	202	272	—	—

Information technology	**(4)**	41	7	—	3
Other	**37**	48	(1)	4	46
	163	510	353	45	87
Total international	**194**	536	360	45	88
Total specific provision	**721**	1,065	1,049	571	530
General allocated (3)	**6**	(22)	205	73	n.a.
General unallocated (3)	**(6)**	22	(135)	47	n.a.
Total general provision (3)	**—**	—	70	120	230
Total	**$ 721**	$ 1,065	$ 1,119	$ 691	$ 760

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

(2) Comprises Manitoba, Saskatchewan and Alberta.

(3) The general allocated provision and the general unallocated provision together totalled $230 million in 1999. This was not separated into the general allocated and general unallocated components.

TABLE 15 **Allowance for credit losses**

(C$ millions, except percentage amounts)	2003	2002	2001	2000	1999
Allowance at beginning of year	**$ 2,314**	$ 2,392	$ 1,975	$ 1,900	$ 2,066
Provision for credit losses	**721**	1,065	1,119	691	760
Write-offs					
Canada					
Residential mortgage	**(6)**	(11)	(15)	(11)	(14)
Personal	**(345)**	(381)	(394)	(372)	(236)
Credit card	**(188)**	(172)	(169)	(150)	(65)
Business and government	**(224)**	(330)	(296)	(225)	(524)
	(763)	(894)	(874)	(758)	(839)
International					
Residential mortgage	**(4)**	(1)	(9)	—	—
Personal	**(28)**	(17)	(7)	—	—
Credit card	**(4)**	(6)	(2)	—	—
Business and government	**(183)**	(506)	(233)	(81)	(229)
LDC exposures	**—**	(33)	—	—	(4)
	(219)	(563)	(251)	(81)	(233)
	(982)	(1,457)	(1,125)	(839)	(1,072)
Recoveries					
Canada					
Residential mortgage	**—**	—	—	—	2
Personal	**66**	68	66	44	31
Credit card	**36**	37	44	48	10
Business and government	**53**	72	58	48	66
	155	177	168	140	109
International					
Personal	**2**	2	1	—	—
Credit card	**1**	1	—	—	—
Business and government	**12**	18	16	22	5
	15	21	17	22	5
	170	198	185	162	114
Net write-offs	**(812)**	(1,259)	(940)	(677)	(958)
Acquisition of Admiralty Bancorp, Inc.	**8**	—	—	—	—
Acquisition of Eagle Bancshares, Inc.	**—**	18	—	—	—
Acquisition of Centura Banks, Inc.	**—**	—	157	—	—
Adjustments	**(67)**	98	81	61	32
Allowance at end of year	**$ 2,164**	$ 2,314	$ 2,392	$ 1,975	$ 1,900
Allocation of allowance (1)					
Canada					
Residential mortgage	**$ 33**	$ 35	$ 45	$ 46	$ 53
Personal	**395**	429	447	403	344
Credit card	**147**	147	147	88	60
Business and government	**682**	711	791	664	748
	1,257	1,322	1,430	1,201	1,205
International					
Residential mortgage	**4**	6	4	11	9
Personal	**42**	36	33	—	—
Credit card	**4**	5	5	—	—
Business and government	**510**	583	581	322	380

	560	630	623	333	389
Allocated allowance for loan losses	**1,817**	1,952	2,053	1,534	1,594
General unallocated allowance for loan losses	**238**	251	225	337	290
Total allowance for loan losses	**2,055**	2,203	2,278	1,871	1,884
Allowance for off-balance sheet and other items (2)	**109**	109	109	98	—
Allowance for loan substitute securities	**—**	2	5	6	16
Total allowance for credit losses	**$ 2,164**	$ 2,314	$ 2,392	$ 1,975	$ 1,900

(1) The allowance for loan losses includes an amount for the general allocated allowance, which has been allocated to loan categories. These amounts total $1,060 million (2002 — $1,060 million; 2001 — $1,076 million; 2000 — $765 million; 1999 — $790 million) and have been allocated as follows: for Canada — residential mortgage $21 million (2002 — $20 million; 2001 — $21 million; 2000 — $18 million; 1999 — $11 million), personal $266 million (2002 — $266 million; 2001 — $266 million; 2000 — $207 million; 1999 — $174 million), credit card $147 million (2002 — $147 million; 2001 — $147 million; 2000 — $88 million; 1999 — $60 million), business and government $385 million (2002 — $386 million; 2001 — $385 million; 2000 — $321 million; 1999 — $370 million), and for International — residential mortgage $2 million (2002 — $3 million; 2001 — $2 million; 2000 and 1999 — nil), personal $33 million (2002 — $22 million; 2001 — $26 million; 2000 and 1999 — nil), credit card $4 million (2002 — $5 million; 2001 — $5 million; 2000 and 1999 — nil), and business and government $202 million (2002 — $211 million; 2001 — $224 million; 2000 — $131 million; 1999 — $175 million).

(2) 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.

TABLE 16 **Foreign outstandings (1)**

(C$ millions, except percentage amounts)	2003	% of total assets	2002	% of total assets	2001	% of total assets
United States — Banks	**$ 7,204**		$ 5,838		$ 7,186	
Government	**7,970**		3,257		3,834	
Other	**57,086**		62,210		49,172	
	72,260	**17.93%**	71,305	18.92%	60,192	16.75%
Western Europe						
United Kingdom — Banks	**8,600**		7,179		6,275	
Government	**512**		295		153	
Other	**9,141**		5,719		5,256	
	18,253	**4.53**	13,193	3.50	11,684	3.25
France — Banks	**4,073**		2,061		2,378	
Government	**166**		86		68	
Other	**678**		831		1,176	
	4,917	**1.22**	2,978	.79	3,622	1.01
Germany — Banks	**5,974**		5,344		5,952	
Government	**1,309**		318		173	
Other	**385**		381		559	
	7,668	**1.90**	6,043	1.60	6,684	1.86
Netherlands	**2,458**	**.61**	2,271	.60	2,218	.62
Switzerland	**763**	**.19**	1,714	.45	1,362	.38
Other	**5,223**	**1.30**	5,658	1.51	5,244	1.46
	39,282	**9.75**	31,857	8.45	30,814	8.58
Central/Eastern Europe, Middle East and Africa	**198**	**.05**	247	.07	469	.13
Latin America						
Argentina	**87**	**.02**	146	.04	193	.06
Brazil	**33**	**.01**	38	.01	71	.02
Chile	**385**	**.09**	800	.21	836	.23
Mexico	**318**	**.08**	493	.13	696	.19
Other	**42**	**.01**	42	.01	174	.05
	865	**.21**	1,519	.40	1,970	.55
Caribbean						
Bahamas	**1,255**	**.31**	1,453	.38	1,520	.42
Other	**1,437**	**.36**	485	.13	1,902	.53
	2,692	**.67**	1,938	.51	3,422	.95
Asia						
Japan — Banks	**428**		321		53	
Government	**4,263**		2,426		1,663	
Other	**92**		64		988	
	4,783	**1.19**	2,811	.75	2,704	.75
Singapore	**289**	**.07**	229	.06	217	.06
South Korea	**389**	**.10**	405	.11	449	.13
Other	**330**	**.08**	38	.01	145	.04
	5,791	**1.44**	3,483	.93	3,515	.98
Australia and New Zealand	**2,425**	**.60**	2,842	.75	2,335	.65

Allowance for loan losses (2)	**(678)**	**(.17)**	(760)	(.20)	(728)	(.20)
Total	**$122,835**	**30.48%**	$112,431	29.83%	$101,989	28.39%

(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) 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 17 **U.S. loans, acceptances and reverse repurchase agreements and loan quality information** (1)

	Loan balances				Gross impaired loans				Net impaired loans				Provision for credit losses			
(C$ millions)	**2003**	**2002**	**2001**	**2000**	**2003**	**2002**	**2001**	**2000**	**2003**	**2002**	**2001**	**2000**	**2003**	**2002**	**2001**	**2000**
Consumer																
Residential mortgage	**$ 4,094**	$ 4,351	$ 2,664	$ 845	**$ 7**	$ 16	$ 24	$ —	**$ 6**	$ 13	$ 22	$—	**$ 3**	$ 7	$ 8	$—
Personal	**5,015**	5,269	4,621	78	**22**	31	15	—	**12**	17	8	—	**24**	15	5	—
Credit card	**107**	125	128	—	**—**	—	—	—	**—**	—	—	—	**3**	4	2	—
	9,216	9,745	7,413	923	**29**	47	39	—	**18**	30	30	—	**30**	26	15	—
Business and government loans and acceptances																
Consumer goods	**816**	958	1,172	435	**16**	10	9	—	**12**	7	7	—	**8**	4	2	—
Commercial real estate	**5,480**	4,531	3,773	44	**65**	75	81	4	**53**	62	49	1	**5**	5	66	2
Energy	**1,200**	2,680	1,613	1,582	**114**	95	—	—	**49**	29	—	—	**16**	107	—	—
Government	**100**	19	23	—	**—**	—	—	—	**—**	—	—	—	**—**	—	—	—
Automotive	**318**	409	408	221	**7**	29	33	—	**6**	22	25	—	**(1)**	1	6	—
Industrial products	**449**	974	1,513	1,107	**5**	30	8	68	**2**	13	(1)	34	**(1)**	8	3	40
Transportation and environment	**350**	484	788	469	**9**	36	48	56	**2**	28	26	25	**7**	5	(4)	42
Forest products	**123**	223	98	181	**—**	—	—	—	**—**	—	—	—	**—**	—	—	—
Financial services	**3,011**	3,770	4,104	4,521	**9**	46	30	—	**6**	35	23	—	**—**	11	7	—
Media and cable (2)	**854**	1,107	1,038	1,782	**44**	56	—	—	**44**	56	—	—	**12**	—	3	—
Mining and metals	**91**	70	45	104	**—**	—	—	—	**—**	—	—	—	**—**	—	—	—
Telecommunication	**315**	689	835	1,131	**—**	77	272	—	**—**	35	122	—	**—**	202	272	—
Information technology	**81**	177	299	374	**11**	48	76	—	**1**	17	70	—	**(4)**	41	7	—
Other	**2,736**	3,348	3,089	541	**52**	35	30	17	**26**	21	24	9	**36**	30	—	15
	15,924	19,439	18,798	12,492	**332**	537	587	145	**201**	325	345	69	**78**	414	362	99
Reverse repurchase agreements	**5,721**	3,258	3,668	2,524	**—**	—	—	—	**—**	—	—	—	**—**	—	—	—
	$30,861	$32,442	$29,879	$15,939	**$361**	$584	$626	$145	**$219**	$355	$375	$69	**$108**	$440	$377	$99

(1) Based on residence of the borrower.

(2) Includes cable loans of $357 million in 2003 (2002 — $522 million; 2001 — $455 million; 2000 — $1,162 million) and gross and net impaired cable loans of $44 million in 2003 (2002 — $56 million).

TABLE 18 **Risk profile**

(C$ millions, except percentage amounts)	**2003**	**2002**	**2001**	**2000**	**1999**
Percentage of loans to total loans (1)					
Canada (2)					
Residential mortgage	**35%**	32%	30%	33%	34%
Personal	**13**	12	12	15	14
Credit card	**2**	2	2	2	1
Business and government	**22**	26	30	32	32
	72	72	74	82	81
International	**28**	28	26	18	19
Total	**100%**	100%	100%	100%	100%
Gross impaired loans					
Beginning of year	**$ 2,288**	$ 2,465	$ 1,678	$ 1,704	$ 2,001
Net additions	**439**	1,280	1,912	813	743

Write-offs and adjustments	**(982)**	(1,457)	(1,125)	(839)	(1,040)
End of year	**$ 1,745**	$ 2,288	$ 2,465	$ 1,678	$ 1,704
Net impaired loans as a % of related loans, acceptances and reverse repurchase agreements					
Canada (2)					
Residential mortgage	**.13%**	.13%	.18%	.26%	.22%
Personal	**.30**	.43	.48	.19	.27
Business and government	**.94**	1.00	1.17	.99	1.05
	.41	.49	.63	.52	.55
International	**.61**	1.05	.85	.33	.32
Total	**.46%**	.65%	.69%	.49%	.51%
Allowance for credit losses					
Specific	**$ 757**	$ 894	$ 951	$ 747	$ 786
Country risk	**—**	—	31	28	34
General allowance					
General allocated (4)	**1,169**	1,169	1,185	863	790
General unallocated	**238**	251	225	337	290
Total general allowance	**1,407**	1,420	1,410	1,200	1,080
Total	**$ 2,164**	$ 2,314	$ 2,392	$ 1,975	$ 1,900
As a % of loans, acceptances and reverse repurchase agreements	**1.0%**	1.0%	1.1%	1.0%	1.1%
As a % of impaired loans (coverage ratio), excluding LDCs	**118%**	96%	93%	112%	112%
Provision for credit losses					
Specific	**$ 721**	$ 1,065	$ 1,049	$ 571	$ 530
General provision (3)					
General allocated	**6**	(22)	205	73	n.a.
General unallocated	**(6)**	22	(135)	47	n.a.
Total general provision	**—**	—	70	120	230
Total	**$ 721**	$ 1,065	$ 1,119	$ 691	$ 760
Credit derivative gains	**(29)**	(102)	—	—	—
Credit derivative losses	**—**	69	—	—	—
Total provision net of credit derivative gains/losses	**$ 692**	$ 1,032	$ 1,119	$ 691	$ 760
Specific provision net of credit derivative gains/losses as a % of average loans, acceptance and reverse repurchase agreements	**.32%**	.49%	—%	—%	—%
As a % of related average loans, acceptances and reverse repurchase agreements					
Canada					
Residential mortgage	**.01%**	—%	.01%	—%	.01%
Personal	**.85**	1.00	.94	1.12	.71
Credit card	**2.92**	3.10	2.73	2.87	2.39
Business and government	**.26**	.21	.52	.22	.40
	.34	.34	.45	.36	.32
International	**.32**	.98	.74	.13	.23
Total specific provision	**.33%**	.51%	.53%	.32%	.30%
Total provision for credit losses	**.33**	.51	.56	.38	.43
Net write-offs (excluding LDCs) as a % of average loans, acceptances and reverse repurchase agreements	**.37%**	.58%	.47%	.38%	.54%
Net write-offs as a % of average loans, acceptances and reverse repurchase agreements	**.37%**	.60%	.47%	.38%	.55%

(1) Loans include acceptances and reverse repurchase agreements.

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

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

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

Risk management

Overview

The mission of the risk management function is to build shareholder value through leadership in the strategic management of risk. Strategic priorities are to:

- Ensure alignment of risk appetite and business strategies
- Attract, develop and retain high-performing risk management professionals
- Enhance communication on risk and risk appetite throughout the organization
- Invest in capabilities to better measure, understand and manage risk
- Strengthen the efficiency, accessibility and responsiveness of key risk processes and practices





Our business activities expose us to the risks outlined in the risk pyramid below. We use the risk pyramid as a tool to identify and assess risk across the organization. Risks are shown within the pyramid according to the level of control and influence that we can exert to mitigate or manage each specific risk type.

Controllable risks

- **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 processes, technology, human performance or external events. The impact of operational risk can be financial loss, loss of reputation, loss of competitive position, poor client service and resulting legal or 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 segment and functional units to identify risks, which are then measured, monitored and managed. In line with our group-wide portfolio management approach, portfolio analysis techniques are employed in an effort to optimize the risk-reward profile and ensure the efficient and appropriate attribution 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 and provide direction as required
- Ensure there are sufficient and appropriate risk management resources across the organization to protect against the risks being taken

Risk management

The middle level of the organizational perspective risk pyramid 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, Ethics and Compliance Committee, Risk Management Committee and other committees responsible for areas such as interest rate risk and trading risk. To address the increasing complexity of products in the marketplace, New Business Committees were established in 2003 in London, New York and Toronto to provide risk oversight of all new business initiatives in RBC Capital Markets.

Key responsibilities of the Chief Risk Officer, Group Risk Management and the various Risk Committees 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 to identify, understand, measure, mitigate and monitor the risks being taken

Economic Capital

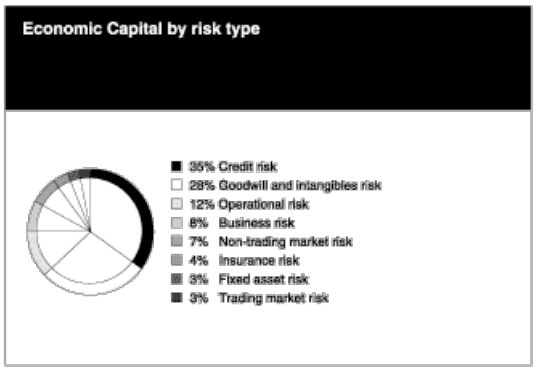
Economic Capital (EC) is an estimate of the amount of common equity required to underpin risks. It is calculated by estimating the level of capital that is necessary to cover risks consistent with our desired solvency standard and AA debt rating. EC analysis is intended to represent the shareholder's perspective and drives the optimization of shareholder returns. Calculation of EC involves a number of assumptions and judgments, and changes to them may result in materially different amounts of EC being computed. Capital attribution methodologies are continually 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 is attributed to our business segments to provide directly comparable performance measurements for each of our business activities and to assist senior management in strategic planning, resource allocation and performance measurement.

EC is calculated for eight distinct risk types. Credit, market, insurance and operational risk are 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 total required economic capital takes into account the diversification benefits between and within risk categories and lines of business. These diversification benefits are passed on to our businesses and are reflected in the EC levels used in their ROE calculations.

The following chart represents the proportionate EC levels by risk type for fiscal 2003. Over the past three years there has been a shift of economic capital from credit risk to goodwill and intangibles risk, which is consistent with our strategies of reducing non-core lending exposures, and our expansion in the U.S.



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

Credit risk

Our approach to credit risk management preserves the independence and integrity of risk assessment while being integrated into the portfolio 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 our strong credit culture.

We manage credit risk directly through key control processes, risk measurements used by management to monitor performance and through the use of certain risk mitigation strategies.

Key control processes

Credit scoring models are used for underwriting and ongoing monitoring of consumer and certain small business credit. Applicant scoring is used for underwriting purposes and utilizes established statistical methods of analyzing applicant characteristics and past performance to determine the probability of the risk for future credit performance. Behavioural scoring is used for ongoing management of booked accounts and utilizes statistical techniques that capture past performance to predict future behaviour of existing accounts. Both applicant and behavioural scores use customer centric scoring models which consider the strength of the entire client relationship, utilizing certain variables, to predict future behaviour.

For commercial and corporate clients, we assign an internal risk rating based on a detailed review of the borrower. 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. The internal risk ratings are assessed and updated on a regular basis.

In addition to control processes for credit granting and ongoing monitoring, we have established risk limits in place to ensure that we do not become over-exposed to any one borrower or family of related borrowers, industry sector or geographic area.

Risk measurements

Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to ensure our senior management is aware of shifts in loan quality and portfolio performance. The three critical components of this reporting framework are a dashboard for consumer and small business lending, and classification reporting and expected loss monitoring on the commercial and corporate lending portfolios.

The dashboard is a monthly reporting mechanism in place for all consumer and small business loan portfolios. The performance of each portfolio is assessed against various risk/reward measures and assigned one of the following ratings — concern, monitor or good. At year-end, portfolios representing approximately 3% of consumer and small business loans outstanding at October 31, 2003, were rated as concern. To monitor any shifts in portfolio quality, further assessment criteria are applied to each portfolio to generate one of the following portfolio quality trend indicators — declining, stable or improving. At year-end, most portfolios reflected a stable or improving portfolio quality trend, including the portfolios classified as concern from a risk-reward perspective.

Classification reporting is an ongoing process in place to ensure that Account and Risk Managers are effective in early problem recognition on commercial and corporate lending. Once any sign of weakness is identified or concern is raised, the exposure is classified as Especially Mentioned, Substandard, Doubtful or Loss. Total classified outstanding loans decreased by $2.2 billion from a year ago to $3.9 billion at October 31, 2003.

In addition, current one-year expected losses on our commercial and corporate loan portfolio provides a good indicator of asset quality trends. Expected loss is compared to long-term or through-the-cycle expected losses to assess where we are in the credit cycle.

Risk mitigation

To respond proactively to credit deterioration and to mitigate risk, a problem loan workout group with specialized expertise handles the management and collection of impaired loans and certain performing loans.

Portfolio diversification remains the cornerstone of our risk mitigation activities, and as a result, 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 resulting from a particular counterparty being unable to fulfill its payment obligations, single-name limits are in place, with the limit set based on the applicable risk rating. 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.

To mitigate risk on portions of our portfolio, we enter into credit derivative contracts. As at October 31, 2003, credit mitigation was in place to cover $.7 billion in corporate credit exposure, down from $1 billion as at October 31, 2002, reflecting overall improvements in asset quality which resulted in a lower need for protection.

Loan sales are also used to manage risk. We seek to identify and sell loans we have made to borrowers whose risk/reward profiles and borrower ratings no longer satisfy our requirements. Loan sales totalled approximately $.5 billion in 2003.

Market risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. The level of market risk to which we are exposed varies depending on market conditions, expectations of future price and market movements and the composition of our trading portfolio. We establish risk management policies and limits for our trading and asset/liability management activities that allow us to monitor and control our 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 we also participate in structured derivative transactions. Market risks associated with trading activities are a result of market-making, positioning and sales and arbitrage activities in the interest rate, foreign exchange, equity, commodities and credit markets. Our trading operation primarily acts as a market maker, 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 proprietary market risk positions within the authorizations granted by the Board of Directors.

The trading book consists of positions that are held for short-term resale, taken on with the intent of benefiting in the short term from actual and/or expected differences between their buying and selling prices or to lock in arbitrage profits.

Interest rate risk

Interest rate risk is the potential adverse impact on our earnings and economic value due to changes in interest rates. Most of our holdings in financial instruments result in exposure to interest rate risk.

Credit spread risk and debt specific risk

Credit spread and debt specific risk are the potential adverse impact on our earnings and economic value due to changes in the creditworthiness and credit rating of issuers of bonds and money market instruments, or the names underlying credit derivatives. We are exposed to credit spread risk and debt specific risk through our positions in bonds, money market instruments and credit derivatives.

Foreign exchange rate risk

Foreign exchange rate risk is the potential adverse impact on our earnings and economic value due to currency rate movements and volatilities. In our proprietary positions, we hold risk in both the spot and forward foreign exchange markets and in the derivatives 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 level of the stock market. We are exposed to equity risk from the buying and selling of equities as a principal in our investment banking activities. Equity risk also results from our trading activities, including the offering of tailored equity derivative products to clients, arbitrage trading and proprietary trading.

Monitoring market risk

A comprehensive risk policy framework governs trading-related risks and activities and provides guidance to trading management, middle office/compliance functions and operation areas. We employ an extensive set of principles, rules, controls and limits, which we believe conform to industry best practice. This market risk management framework is designed to ensure that an appropriate diversification of risks is adopted on a global basis. Group Risk Management (GRM) — Market Risk is a corporate function that is independent of the trading operations and it is responsible for the daily monitoring of global trading risk exposures via risk measures such as VAR, sensitivity analysis and stress testing. GRM uses these risk measures to assess global risk-return trends and to alert senior management of adverse trends or positions. These risk measures are reported on a daily basis to senior management. The senior management of RBC Capital Markets and senior executives within GRM review trends in market risk on a weekly basis. Trends in market risk are reported to the Group Risk Committee and the Conduct Review and Risk Policy Committee on a quarterly basis.

TABLE 19 **Market risk measures — Trading activities (1)**

(C$ millions)	2003 Year-end	2003 High	2003 Average	2003 Low	2002 Year-end	2002 High	2002 Average	2002 Low
Global VAR by major risk category								
Equity	**$ 4**	**$ 12**	**$ 7**	**$ 4**	$ 7	$ 12	$ 8	$ 6
Foreign exchange and commodity	**2**	**7**	**3**	**1**	2	9	3	1
Interest rate	**8**	**13**	**9**	**6**	11	14	6	2
Global VAR (2)	**$ 8**	**$ 19**	**$ 13**	**$ 8**	$ 13	$ 18	$ 11	$ 7

(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.

VAR is an industry standard measure of market risk and is a determinant of minimum regulatory capital requirement. Our VAR model uses statistical models, historical market price information and credit migration statistics 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 movement in market rates, prices or issuer ratings. 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 combination of historical simulation of the previous 500 trading days and Monte Carlo event generation for migration and default events to determine VAR for our trading portfolio.

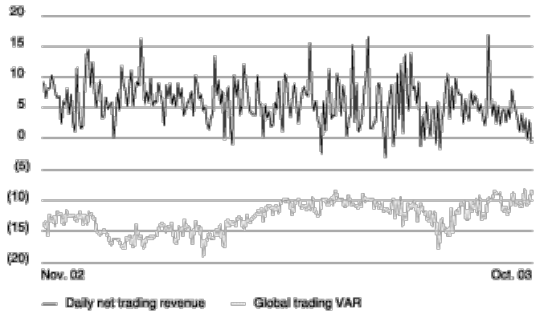
In addition to VAR, extensive sensitivity analysis and stress testing are performed, monitored and reported on a daily basis as a supplementary control on our market risk exposure. Sensitivity analysis is used to measure the impact of small changes in individual risk factors such as interest rates and foreign exchange rates and are designed to isolate and quantify exposure to the underlying risk factors that affect option prices. Stress testing measures the impact of extreme market movements and is intended to alert senior management of the exposure to potential political, economic or other disruptive events.

The year-end, high, average and low VAR by major risk category for our combined trading activities for the years ended October 31, 2003 and 2002 are shown in Table 19 above. 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 global VAR in 2003 was $13 million, compared to $11 million in 2002. The largest contributor to VAR is the interest rate product class. The VAR associated with this product class captures the interest rate risk, credit spread risk and default risk associated with money market, fixed income, and fixed income derivatives trading. Risk in newer products not yet captured within our VAR calculation is measured by other sensitivity and stress scenarios appropriate for the products.

The graph on this page, top right compares the global trading VAR amounts to the relevant daily net trading revenue for the year ended October 31, 2003. During fiscal 2003, we experienced eight days of net trading losses, and net trading losses in any single day did not exceed the VAR estimate for that day. The breadth of our trading activities is designed to diversify market risk to any particular strategy, and to reduce trading revenue volatility.

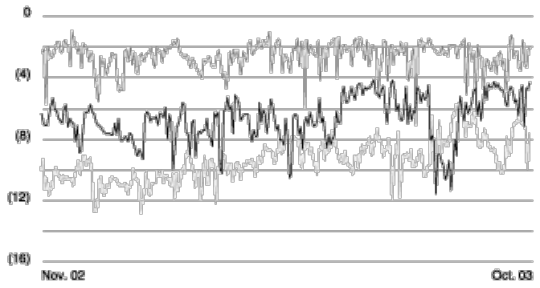
Back-testing against hypothetical profit and loss is used to monitor the statistical validity of VAR models. Actual one-day changes in market rates and prices as well as actual 10-day changes in issuer ratings are used to calculate hypothetical profit and loss on a given portfolio for a particular date if the end of day portfolio was held constant during the period. Back-testing is performed daily across all trading portfolios. In fiscal 2003, there were no instances of the hypothetical net loss exceeding the VAR.

DAILY NET TRADING REVENUE VS GLOBAL TRADING VAR
(C$ millions)



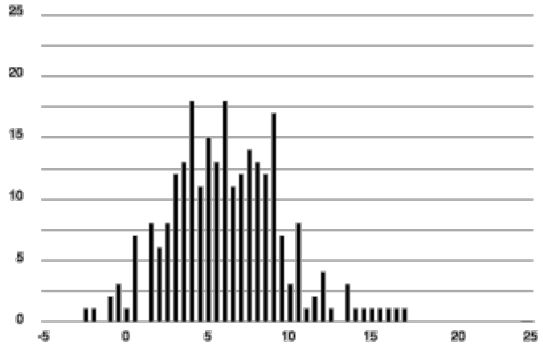
— Daily net trading revenue — Global trading VAR

GLOBAL VAR BY MAJOR RISK CATEGORY
(C$ millions)



— Daily equity VAR — Daily foreign exchange VAR — Daily interest rate VAR

HISTOGRAM OF DAILY NET TRADING REVENUE
(number of days)



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, and exposures are continually measured, monitored and mitigated. We have developed and implemented a comprehensive liquidity management framework comprising policies, procedures, methodologies and measurements.

For further information on liquidity see the Liquidity management section on page 62A.

Insurance risk

The Insurance business contains elements of credit, market and operational risk, and it also subjects us to product design and pricing risk, claims administration risk, underwriting risk and liability risk.

The process of designing and pricing products includes the estimation of many factors including future investment yields, 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, as a result, financial 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. Claims experience risk in relation to estimates of future mortality and morbidity can also be mitigated through reinsurance.

Claims administration risk is the exposure to higher than expected claims due to administrative practices in settling claims. Policies and procedures are in place 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 more senior staff.

Underwriting risk is the risk of 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 or having property and casualty catastrophe reinsurance, mitigates exposure to large claims.

Liability risk is the risk that attributes of a specific type of risk are misunderstood and improperly quantified, resulting in the liabilities established for this type of risk being inadequate. Actuaries review the assumptions used in the calculation of policy benefit liabilities on a quarterly basis to reduce our exposure to this type of risk.

The overall insurance risks assumed are dependent on our ability to reprice the contracts. For property and casualty insurance risks (mainly travel, home & auto) and group life insurance, the price charged for coverage is guaranteed for relatively short periods (up to a year). For most individual life insurance, the price charged for coverage can be guaranteed for periods of several years and there is greater insurance risk as a result.

To measure and report on risk, each business/product line is classified as concern, monitor, or good. This classification is based on a review of solvency ratios, claim ratios, the combined (profitability) ratio and liabilities. At the end of 2003, all business/product lines were classified as monitor or good.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, technology, human performance or from 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 professionals who are proactive in developing and implementing new methodologies for the identification, assessment and management of operational risk.

To monitor and mitigate operational risks in the organization, we have developed and are in the process of implementing the Risk and Control Self-Assessment process and the Loss Event Database, both enterprise-wide initiatives.

Risk and Control Self-Assessment (RCSA)

RCSA is a formal process established to identify, document, assess and manage 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 self-assessment, usually in a cross-functional workshop setting, to determine key risks, mitigating controls, the potential impact should a problem occur, the likelihood of a problem occurring, and the acceptability of the residual exposure. Where residual exposure is deemed unacceptable, the group will identify root causes and 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.

At October 31, 2003, RCSAs had been completed on approximately 30% of the entities deemed to be medium-to-high priority. It is expected that all risk assessments for this group will be completed by mid-2005.

Loss Event Database (LED)

The LED is a centralized database designed to capture information pertaining to operational losses, with more detailed information collected for

losses exceeding $25,000. The losses tracked are mapped to the entities identified in the RCSA process. Information such as the frequency, severity and nature of operational losses is captured. This data capture allows for analysis at the business segment and enterprise level and leads to a better understanding of the root causes of operational losses and improved risk mitigation strategies. Based on data collected to date, we have determined that the most frequent losses relate to process risk where there is a failure in the transaction processes in high-volume environments.

Ongoing developments

While operational risk is not a new risk, increased focus and renewed rigour in its management are evident throughout the industry, be it with respect to capital reform or changing expectations for managing and reporting this risk. The RCSA and LED initiatives outlined above are key to our strategies for effectively managing operational risk, while research and development efforts will continue in the areas of quantification methodologies, scenario analysis and key risk indicators as we strive to stay at the forefront of operational risk management best practices.

Changing regulatory landscape

As a globally active, diversified financial services company, we fall within the purview of multiple regulatory bodies in different jurisdictions, geographic locations and business lines. There is also continued expansion in regulatory interest and expectations with respect to areas such as capital, risk management, corporate governance, reporting and disclosure. Some of the more visible of these are the capital reform efforts of the Basel Committee, the disclosure and certification requirements under the *Sarbanes-Oxley Act of 2002* in the U.S., anti-money laundering requirements, and updated standards for sound business and financial practices from the Canada Deposit Insurance Corporation. Key to addressing this changing regulatory landscape effectively are ongoing assessments of how the requirements of multiple regulators overlap, and an integrated, coordinated approach to evaluating how the practices supporting our sound and prudent management measure up against evolving regulatory requirements. Wherever possible, we base compliance on existing sound and prudent practices, and endeavour to meet multiple regulatory requirements concurrently.

Financial priority: Balance sheet and capital management

Highlights

- Consumer loans up 7%
- Deposits up 6%
- Internally generated capital of $1.8 billion
- Capital ratios stronger
- Common share repurchases of $852 million
- $900 million of Innovative Tier 1 capital, Trust Capital Securities — Series 2013 issued
- First Preferred Shares Series J redeemed for $300 million
- US$ First Preferred Shares Series K redeemed for US$250 million

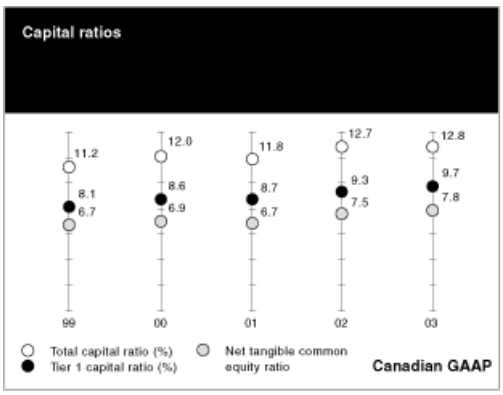
Total assets were $403.0 billion at October 31, 2003, up $26.1 billion or 7% from October 31, 2002.

Securities were up $23.6 billion or 25% from a year ago reflecting an increase in trading account securities of $13.5 billion due to increased trading activity, and $10.1 billion in investment account securities primarily due to redeployment of funds to higher-yielding investments.

Loans (before allowance for loan losses) were up $1.0 billion or 1%. Consumer loans (residential mortgage, personal and credit card loans) were up $7.9 billion or 7%, with residential mortgages up $6.0 billion or 8% (after $4.1 billion of securitizations during the year), personal loans up $2.0 billion or 6% and credit card balances down $.1 billion or 2% (after $1.0 billion of securitizations during the year). Business and government loans were down, reflecting our deliberate effort to reduce the size of our corporate loan portfolio and a reduction in the demand for credit.

Other assets were up $4.7 billion to $61.4 billion. This reflected a $5.4 billion increase in the fair value of our foreign exchange derivative-related amounts and a $1.9 billion increase in other — other assets (primarily due to an increase in investment in associated corporations). Other — other assets includes $425 million (US$322 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, as discussed in Note 20 to the financial statements on page 94A. This amount is net of a settlement we received in the fourth quarter, valued at approximately US$195 million plus interest, which was in accordance with the terms of a settlement agreement with Enron Corporation, the Enron Creditors' Committee and Rabobank. The settlement received has reduced the amount owing by Rabobank but did not otherwise affect the ongoing litigation with Rabobank.

Capital ratios



Management expects to recover the amount owing from Rabobank in its entirety, and accordingly a provision for loss has not been recorded.

Deposits were $259.1 billion, up $15.7 billion or 6% from October 31, 2002. Interest-bearing deposits were up $13.3 billion or 6% and non-interest-bearing deposits up $2.4 billion or 10%. Personal deposits were up $4.8 billion, business and government deposits up $10.3 billion and bank deposits were up $.6 billion. Further details on deposits are provided in Note 10 on page 84A.

The fair values of loans and deposits differ from their respective book values due to changes in the level of interest rates and changes in credit status. The estimated fair value of loans due from clients exceeded book values by $1.9 billion at October 31, 2003, and $2.3 billion at October 31, 2002. The estimated fair value of deposits owed to clients exceeded book value by $1.4 billion at October 31, 2003, and $1.7 billion at October 31, 2002. The net amount of the fair value excess of loans due from clients and the fair value excess of deposits due to clients was $474 million at October 31, 2003, as shown in Note 23 on page 98A. The estimated fair values of loans and deposits were in excess of their book values largely due to a decline in interest rates.

Other liabilities increased $10.3 billion to $116.9 billion. The growth was largely due to a $5.6 billion increase in derivative-related amounts, a

$3.7 billion increase in obligations related to securities sold short, and a $2.4 billion increase in insurance claims and policy benefit liabilities largely due to the acquisition of Business Men's Assurance Company of America by RBC Liberty Insurance in May 2003.

Subordinated debentures (**subordinated indebtedness**) decreased by $371 million to $6.2 billion.

Non-controlling interest in subsidiaries consists primarily of RBC Capital Trust, a closed-end trust, and RBC Capital Trust II, an open-end trust, which have $1.4 billion and $.9 billion of transferable trust units (RBC TruCS) outstanding, respectively. The RBC TruCS are included in Tier 1 capital under guidelines issued by OSFI.

Shareholders' equity was $18.4 billion at October 31, 2003, down $408 million from a year ago reflecting $645 million of preferred share redemptions.

We fund pension plans in compliance with applicable legislative and regulatory requirements, which require funding when there is a deficit on an actuarial funding basis. Different assumptions and methods are prescribed for regulatory funding purposes versus accounting purposes. This year we contributed $737 million to pension plans, fully funding them for regulatory purposes. Note 17 on page 90A describes the funding position for accounting purposes and the sensitivity of key assumptions.

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 to achieve this balance, we consider expected levels of risk-adjusted assets and balance sheet assets, our future investment plans, and the costs and terms of current and potential capital issuances.

We are committed to maintaining strong capital ratios through internal capital generation, the issuance of capital instruments when appropriate, and controlled growth in assets. During 2003, we achieved strong levels of internal capital generation notwithstanding the weak capital markets environment during the first six months of the fiscal year. The weak market environment and planned reductions of corporate loans also contributed to slower growth in risk-adjusted assets, which enabled us to continue repurchasing shares and redeeming some of our outstanding capital instruments, replacing them partly with more cost-effective Innovative Tier 1 capital. Our debt ratings continue to favourably impact our ability to raise capital at competitive prices.

Capital management activity

In 2003, we repurchased 14.5 million common shares, of which 8.6 million shares were repurchased for $502 million under a normal course issuer bid that expired in June 2003; and 5.9 million shares were repurchased for $350 million under a normal course issuer bid that allows for the repurchase of up to 25 million common shares, representing approximately 3.8% of outstanding common shares, between June 24, 2003, and June 23, 2004. In total, during 2003, we spent $852 million to repurchase our common shares and issued 5.3 million common shares for $183 million in connection with the exercise of employee stock options.

On July 23, 2003, RBC Capital Trust II, an SPE and open-end trust we sponsored, issued $900 million of Innovative Tier 1 capital, Trust Capital Securities — Series 2013 (RBC TruCS — Series 2013).

In May 2003, we redeemed $300 million of First Preferred Shares Series J, and US$250 million of First Preferred Shares Series K, both of which were included in our Tier 1 capital.

In September 2003, we redeemed $100 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. 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 20 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 21 on page 60A, are determined by applying OSFI prescribed risk weights to balance sheet assets and off-balance sheet financial instruments according to the deemed credit risk of the counterparty. Risk-adjusted assets also include an amount for the market risk exposure associated with our trading portfolio.

TABLE 20 **Capital ratios** (1)

(C$ millions, except percentage amounts)	2003	2002	2001
Tier 1 capital			
Common equity	**$ 17,543**	$ 17,238	$ 16,141
Non-cumulative preferred shares	**832**	1,545	2,024
Non-controlling interest in subsidiaries			
RBC Capital Trust	**1,400**	1,400	1,400
RBC Capital Trust II	**900**	—	—
Other	**27**	29	28
Goodwill	**(4,443)**	(4,832)	(4,742)
	16,259	15,380	14,851
Tier 2 capital			
Permanent subordinated debentures	**396**	467	477
Other subordinated debentures (2), (3)	**5,847**	6,147	5,935
General allowance (4)	**1,407**	1,420	1,410
	7,650	8,034	7,822
Investment in insurance subsidiaries	**(2,143)**	(2,014)	(2,107)
Other substantial investments	**(371)**	(368)	(387)
First loss facility	**(21)**	(20)	(8)
Total capital	**$ 21,374**	$ 21,012	$ 20,171
Risk-adjusted assets	**$166,911**	$165,559	$171,047

Capital ratios			
Common equity to risk-adjusted assets	**10.5%**	10.4%	9.4%
Tier 1 capital to risk-adjusted assets	**9.7%**	9.3%	8.7%
Total capital to risk-adjusted assets	**12.8%**	12.7%	11.8%
Assets-to-capital multiple (5)	**18.2**	17.3	17.2
U.S. basis (6)			
Tier 1 capital to risk-adjusted assets	**8.7%**	8.5%	8.1%
Total capital to risk-adjusted assets	**12.0%**	11.9%	11.2%
Equity to assets (7)	**4.9%**	5.3%	5.1%

(1) Using guidelines issued by OSFI 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) On November 3, 2003, we issued $1 billion of subordinated debentures, which increased Total capital by the same amount.

(4) The general allowance for credit losses may be included in Tier 2 capital up to a maximum of .875% (2002—2001 — .875%) of risk-adjusted assets.

(5) Total assets and specified off-balance sheet financial instruments, as prescribed by OSFI, 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 (including netted derivatives). Average total shareholders' equity is calculated as the average of the month-end balances for the period.

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, 2003, our Tier 1 and Total capital ratios were 9.7% and 12.8%, respectively, compared to 9.3% and 12.7% at October 31, 2002. Throughout 2003, we maintained capital ratios that exceeded our medium-term goals of 8.0—8.5% for the Tier 1 capital ratio and 11—12% for the Total capital ratio. Our capital ratios, 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 shown in Table 20 on page 59A.

In addition to the Tier 1 and Total capital ratios, Canadian banks need to operate within a leverage constraint, and ensure that their assets-to-capital multiple does not exceed the level prescribed by regulators. The assets-to-capital multiple shown in Table 20 on page 59A is calculated by dividing gross adjusted assets based on Canadian GAAP by Total capital. Gross adjusted assets represent the bank's total assets including specified off-balance sheet items and are net of prescribed deductions.

Our policy is to remain well capitalized so as to provide a cushion for the risks we are exposed to in the conduct of our business.

Pending developments

Changes to the Basel II agreement for assessing capital adequacy are currently in the process of being finalized. The implementation is not expected prior to fiscal 2007.

Several changes in accounting principles have either been introduced or are being proposed in the U.S. and in Canada in the areas of consolidation of Variable Interest Entities (as described in Note 1 to the consolidated financial statements on pages 75A and 76A) and classification of certain financial instruments as either equity or liabilities. These changes could significantly affect the reporting of assets and capital instruments. The lack of definitive guidance by accounting boards and uncertainties regarding the response of regulators to the accounting changes have increased capital management challenges. We continue to closely monitor changes in the accounting framework and their potential impact on our capitalization levels through ongoing dialogue with our external auditors, other financial institutions, the Canadian Bankers Association and OSFI.

TABLE 21 **Risk-adjusted assets** (1)

(C$ millions, except percentage amounts)	Balance sheet amount	Weighted average of risk weights (2)	Risk-adjusted balance 2003	Risk-adjusted balance 2002
Balance sheet assets				
Cash resources	$ 17,554	12%	**$ 2,026**	$ 2,054
Securities				
Issued or guaranteed by Canadian or other OECD governments	37,692	0%	**28**	36
Other	79,698	6%	**4,557**	4,929
Residential mortgages (3)				
Insured	36,308	1%	**377**	379
Conventional	42,472	52%	**21,951**	20,168
Other loans and acceptances (3)				
Issued or guaranteed by Canadian or other OECD governments	20,141	19%	**3,778**	3,098
Other	113,705	72%	**82,169**	89,836
Other assets	55,463	13%	**6,996**	5,692
	$ 403,033		**$121,882**	$126,192

	Contract amount	Credit conversion factor	Credit equivalent amount			
Off-balance sheet financial instruments						
Credit instruments						
Guarantees and standby letters of credit						
Financial	$ 14,504	100%	$14,504	91%	**$ 13,201**	$ 8,560
Non-financial	3,038	50%	1,519	100%	**1,519**	1,609
Documentary and commercial letters of credit	2,014	20%	403	99%	**399**	150
Securities lending	17,520	100%	17,520	6%	**1,087**	646
Commitments to extend credit						
Original term to maturity of 1 year or less	40,432	0%	—		**—**	—
Original term to maturity of more than 1 year	28,182	50%	14,091	95%	**13,357**	15,638
Uncommitted amounts	59,801	0%	—	—	**—**	—
Note issuance/revolving underwriting facilities	24	50%	12	100%	**12**	12
	$ 165,515		$48,049		**$ 29,575**	$ 26,615
Derivatives	2,137,758		26,652	24%	**6,320**	6,469

Total off-balance sheet financial instruments	$2,303,273	$74,701	**$ 35,895**	$ 33,084
Total specific and general market risk			**9,134**	6,283
Total risk-adjusted assets			**$166,911**	$165,559

(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.

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 that 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 63A to 65A of this section.

Non-trading portfolio

Traditional non-trading 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 assigned interest rate risk limits. We endeavour to adopt the industry's 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 contained. 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. The economic value of equity is equal to the present value of assets less the present value of liabilities, plus or minus the market value of off-balance sheet instruments.

Interest rate funds transfer pricing

We use a funds transfer pricing mechanism to centralize interest rate risk within Corporate Treasury and to ensure an equitable allocation of interest income to the various business units. Funds transfer pricing at the transactional level ensures that interest rate risk is appropriately transferred to Corporate Treasury for management. The funds transfer pricing rates are market-based and are aligned with interest rate 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 investigate best practices in instrument valuation, econometric modeling and new hedging techniques on an ongoing basis. Our investigations range from the evaluation of traditional asset/liability management processes to pro forma application of recent developments in quantitative methods to our processes.

We also 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 measure our risk position on a daily, weekly or monthly basis with the frequency employed commensurate with the size and complexity of the portfolio. Measurement of risk is based on client rates as well as funds transfer pricing rates. We continue to make investments in new technology to facilitate measurement and timely management of our interest rate risk position. In 2003, Key Rate Analysis was introduced as the primary measure of our risk position. Key Rate Analysis provides us with an assessment of the sensitivity of the exposure of our economic value of equity to instantaneous changes in individual points on the yield curve.

We supplement our assessment by measuring interest rate risk for a range of dynamic and static market scenarios. 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 assumed changes in interest rate levels and changes in the shape of the yield curve. Static scenarios supplement dynamic scenarios and are also employed for assessing both value of equity risk and net interest income risk.

Interest rate risk management

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

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 primarily from embedded options in our products that allow clients to modify the maturities of their loans or deposits. Examples are a client prepaying 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 the risks are managed by either purchasing options or by a dynamic hedging strategy.

The performance of the 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 22 below shows the potential impacts of 100 and 200 basis point increases and decreases in interest rates on economic value of equity and net interest income of our non-trading portfolio. These measures are as of October 31, 2003, 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 notionally invested evenly over a five-year horizon. As a result of this decision, our interest rate risk profile has slightly faster repricing 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 22 **Market risk measures – Non-trading activities** (1)

	2003		2002	
(C$ millions)	**Economic value of equity risk**	**Net interest income risk**	**Economic value of equity risk**	**Net interest income risk**
100bp increase	**$ (423)**	**$ 115**	$ (309)	$ 104
100bp decrease	**261**	**(126)**	145	(151)
200bp increase	**$ (869)**	**$ 207**	$ (662)	$ 190
200bp decrease	**545**	**(294)**	345	(327)

(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 customer 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 discussion that follows reflects our consolidated liquidity management practices and processes.

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 Committee and the Asset/Liability Committee share management oversight responsibility for liquidity management and liquidity policies and receive regular reports detailing compliance with limits and guidelines. Committees of the Board of Directors approve our liquidity management framework and significant related policies, and the Board of Directors 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.

Since most of the funding of our subsidiaries is provided by the parent organization, managing our liquidity position on a consolidated basis is the most pragmatic and relevant approach. When managing the flow of liquidity between different legal entities within the consolidated group, we take into account the tax and regulatory considerations associated with each jurisdiction. While such tax and regulatory considerations add a degree of complexity to internal fund flows, given intra-group funding arrangements, our consolidated liquidity management approach already takes into account the maximum funding demands associated with intra-group requirements. Subsidiaries responsible for managing their own liquidity do so in compliance with policies and practices established by Corporate Treasury and with 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 customers and future market conditions. We monitor industry practices and regulatory developments and, as appropriate, upgrade our liquidity management framework to reflect relevant developments. We consider our liquidity profile to be sound and there are no known trends, demands, commitments, events or uncertainties that are presently viewed as likely to materially change our current liquidity position.

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 analysis of our balance sheet.

We use 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 to assess our ability to continue as a going concern during a prolonged liquidity event, such as an unexpected withdrawal of short-term funding. In the context of a sustainable business model, the cash capital methodology allows us to measure and monitor the relationship between illiquid assets and core funding. This reconstruction of our balance sheet enables us to more accurately estimate our exposure to, and make appropriate contingency plans for, a protracted loss of unsecured funding as well as 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 fund 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, test 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. Based on our scenario analyses, our holdings of segregated liquid assets are considered to be sufficient to meet all on- and off-balance sheet obligations if access to funding is temporarily impaired. In addition, we maintain a separate portfolio of eligible assets to support our participation in Canadian payment and settlement systems. All pledging activities are subject to review or approval by the Asset/Liability Committee and are managed and monitored against defined limits. Assets that are encumbered are not accorded any liquidity value in our tactical and contingent liquidity calculations.

Liquid assets and assets purchased under reverse repurchase agreements (before pledging as detailed below) totalled $178 billion or 44% of total assets at October 31, 2003, as compared to $154 billion or 41% at October 31, 2002. Liquid assets are primarily diversified and highly rated

marketable securities. As at October 31, 2003, $14 billion of assets had been pledged as collateral, up from $10 billion at October 31, 2002. We have another $46 billion in obligations related to assets sold under repurchase agreements and securities sold short at October 31, 2003, compared to $40 billion at October 31, 2002. For further details, see Note 20 to the consolidated financial statements on page 93A.

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 an acceptable credit rating, 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 our financial strength. A series of downgrades could have an adverse impact on our funding capacity and on the results of our operations.

Deposit profile

The composition of our global deposit liabilities is summarized in Note 10 on page 84A. 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. Taken together, these depositors represent a consistently reliable component of core funding as they typically have extensive banking relationships and are less responsive to market developments than transactional lenders and investors. Behavioural characteristics, rather than contractual or repricing terms, are used to categorize core deposits. We also 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.

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 2003, we continued to expand our long-term funding base by issuing, either directly or through our subsidiaries, $5.7 billion of senior deposit notes in various currencies and markets. We also established a U.S. shelf registration, to enable us to more conveniently raise senior and subordinated indebtedness in the U.S. public market. Total long-term funding outstanding on October 31, 2003, was $14.2 billion, compared to $13.2 billion on October 31, 2002.

We use asset securitization programs as an alternative source of funding and for liquidity and asset/liability management purposes. During 2003, $1.6 billion of new financing was obtained through the securitization and sale of $1.0 billion of credit card receivables funded by medium-term notes and $610 million of government guaranteed residential mortgages. In addition, we sold $131 million of commercial mortgages to a third-party securitization special purpose vehicle. As of October 31, 2003, $2.7 billion of our credit card receivables were financed through notes issued by a securitization special purpose entity. Our total outstanding mortgage-backed securities (MBS) sold at October 31, 2003, was $2.9 billion (see Note 7 on pages 82A and 83A, and off-balance sheet arrangements below for more details).

Contractual obligations

In the normal course of business, we enter into contracts that give rise to commitments of future minimum payments. Depending on the nature of these commitments, the obligation may be recorded on- or off-balance sheet. Table 23 below provides a summary of our future contractual funding commitments.

TABLE 23 **Contractual obligations**

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Unsecured long-term funding	$ 3,016	$ 5,510	$ 5,573	$ 145	$14,244
Subordinated debentures	—	—	—	6,243	6,243
Obligations under capital leases	358	628	480	681	2,147
Obligations under operating leases	30	37	4	—	71
Purchase obligations	25	11	—	—	36
Total	$ 3,429	$ 6,186	$ 6,057	$ 7,069	$22,741

Off-balance sheet arrangements

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, represent an ongoing part of our business and are generally undertaken for risk management, capital management and/or funding management purposes. Off-balance sheet activities we undertake include derivative financial instruments, transactions with special purpose entities and issuance of guarantees. We do not reasonably expect any presently known trend or uncertainty to affect our ability to continue using these arrangements. Each of these types of arrangements, including their nature, business purpose, importance and significant financial impact, as applicable, is discussed below.

Derivative financial instruments

Derivatives are primarily used in 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. We also use derivatives to manage our exposures to interest, currency and other market risks. 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 pages 54A and 55A).

All derivatives, except those for other than trading purposes that qualify for hedge accounting, 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.

The total notional amount of our derivatives amounted to $2,139 billion at October 31, 2003, compared to $2,081 billion at October 31, 2002. The fair value of our trading and non-trading derivative assets totalled $35.2 billion and $1.6 billion compared to $30.1 billion and $1.6 billion at October 31, 2002, respectively, while the fair value of our trading and non-trading derivative liabilities totalled $37.6 billion and $1.1 billion compared to $32.0 billion and $1.0 billion at October 31, 2002, respectively. Changes in the fair value of our trading and non-trading derivatives that do not qualify for hedge accounting are recorded in non-interest income.

Notes 1 and 21 on pages 73A and 95A to 97A, respectively, provide more detail on our accounting for, and types of, derivatives.

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 certain loans. We also act as an intermediary or agent for clients who want to use SPEs to securitize their own financial assets. We provide SPE repackaging services to clients who seek access to financial assets in a form different than what is conventionally available.

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, usually have no employees and may be Variable Interest Entities (VIEs) as defined by Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG 15).

We provide services to, and/or may have variable interests in, SPEs through a number of different key arrangements as outlined below.

Variable interests represent contractual, ownership or other pecuniary interests in an unconsolidated SPE that will absorb a portion of that SPE's expected losses if they occur, or receive portions of the SPE's expected residual returns if they occur.

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.

Securitization of our financial assets

Credit card receivables

We securitize a portion 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 purposes of this activity are to diversify our funding sources 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 securitization of our credit card receivables is a sale from a legal perspective and qualifies for sale treatment from an accounting perspective. At the time of sale these receivables are removed from our balance sheet resulting in a gain or loss reported in non-interest income.

This SPE meets the criteria for a Qualifying SPE (QSPE) pursuant to CICA Accounting Guideline 12, *Transfers of Receivables* (AcG 12) 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 for which we receive benefits equivalent to market-based compensation for such services. 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 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 upfront expenses. These loans rank subordinate to all notes issued by the QSPE.

At October 31, 2003, total credit card receivables securitized and held off-balance sheet amounted to $2.7 billion, compared to $1.7 billion at October 31, 2002. The carrying value of our retained interests in securitized credit card receivables at October 31, 2003, was $15.5 million compared to $6.7 million in 2002, and amounts receivable under subordinated loan agreements were $8.7 million compared to $5.2 million in 2002.

Residential mortgage loans

We routinely securitize residential mortgage loans through the creation of MBS and sell a portion of these MBS to an independent SPE. Due to the high quality of the residential mortgages backing the MBS, the securitization and subsequent sale provide a cost-effective source of liquidity and help diversify our funding sources. We retain interests in the excess spread on the sold MBS and continue to service the mortgages underlying these MBS for which we receive benefits, equivalent to market-based compensation.

At October 31, 2003, total residential mortgage loans securitized and held off-balance sheet amounted to $2.9 billion, compared to $2.4 billion at October 31, 2002. The carrying value of our retained interests in securitized residential mortgage loans at October 31, 2003, was $94.8 million compared to $90.8 million in 2002.

Further details about the securitization of our financial assets during the year are shown in Note 7 on pages 82A to 83A.

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) totalling $26.8 billion as at October 31, 2003, and $22.2 billion as at October 31, 2002. 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 $22.5 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 favourable 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 finance the 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. While we do not maintain any ownership or retained interests, we do have variable interests in these multi-seller SPEs. We provide or retain certain services such as transaction structuring and administration as specified by the multi-seller SPE program documents and based on rating agency criteria for which we receive fees. In addition, we provide backstop liquidity facilities and partial credit enhancement to the multi-seller SPEs. We have no rights to, or control of, the assets owned by the multi-seller SPE.

Fee revenue for such services, which is reported as non-interest income, amounted to $34.2 million during the year compared to $32.2 million during 2002.

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

Asset class

(C$ millions)	2003	2002
Credit cards	**$ 6,248**	$ 4,671
Auto loans and leases	**3,681**	3,615
Equipment receivables	**2,566**	2,509
Trade receivables	**3,680**	2,479
Residential mortgages	**1,138**	2,004
Other loans	**1,159**	1,275
Dealer floor plan receivables	**1,269**	1,208
Consumer loans	**1,004**	1,196
Asset-backed securities	**952**	926
Other	**754**	706
	$22,451	$20,589

The commercial paper issued by each multi-seller SPE is in the multi-seller 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 except through our participation in liquidity and/or credit enhancement facilities, 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 asset and liability balances is mostly related to the discount or interest costs attributable to the commercial paper. As of October 31, 2003, the total face amount of commercial paper issued by the multi-seller SPEs equaled $22,494 million, generating $22,451 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 enhancement facilities, which are included in our discussion on Guarantees below, are shown in the following table:

Liquidity and credit facilities

	2003		2002	
(C$ millions)	**Committed (1)**	**Outstanding**	**Committed (1)**	**Outstanding**
Liquidity facilities	**$ 25,727**	**$ —**	$ 22,593	$ —
Credit facilities	**6,791**	**—**	7,211	—

(1) Our maximum exposure to loss under these facilities is $25.7 billion for 2003 and $22.6 billion for 2002.

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, which generally transform credit derivatives into cash instruments, to distribute credit risk and to create customized credit products, to meet the needs of investors with specific requirements. As part of this process, we may acquire variable interests, by entering into trading 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 the investors. In this role as derivative counterparty to the SPE, we also assume the associated counterparty credit risk of the SPE. In order to enter into these transactions, we establish an internal risk rating for 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 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.

As with all our trading derivatives, these derivative variable interests are carried at fair value in derivative-related assets and liabilities.

Asset management

We act as collateral manager for 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 predetermined market-based fee, which may constitute a variable interest, based on a percentage of assets held by the SPE.

The notional amount of the CDOs we managed at the end of fiscal 2003 was US$.8 billion (2002 – US$1.6 billion). Although we have a nominal investment 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 third parties.

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.

For other types of off-balance sheet arrangements we enter into through VIEs, please refer to Note 1 on pages 75A and 76A.

Guarantees

We issue guarantee products, as defined by CICA Accounting Guideline 14, *Disclosure of Guarantees* (AcG 14), to our clients to help them meet their financing needs in return for fees recorded in non-interest income. Our significant types of guarantee products are backstop liquidity facilities, financial standby letters of credit, credit enhancements, stable value products, performance guarantees and certain indemnification agreements.

Our maximum potential exposure in relation to these items at October 31, 2003, amounted to $61 billion. The maximum potential exposure represents the maximum risk of loss if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

Note 20 on pages 93A and 94A provides detailed information regarding the nature and maximum potential exposure for the types of guarantee products mentioned above.

In addition to guarantees, we also provide commercial commitments to our clients to help them meet their financing needs. On behalf of our clients we 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 and letters of credit. We have uncommitted amounts, but not obligations to extend credit. Table 24 below provides a detailed summary of our off-balance sheet commercial commitments.

TABLE 24 **Commercial commitments** (1)

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Documentary and commercial letters of credit	$ 1,509	$ 505	$ —	$ —	$ 2,014
Commitments to extend credit	40,278	19,123	5,212	4,001	68,614
Uncommitted amounts	59,801	—	—	—	59,801
Total	$ 101,588	$ 19,628	$ 5,212	$ 4,001	$130,429

(1) Based on remaining term to maturity.

2002 compared to 2001

The following discussion and analysis provides a comparison of our results of operations for the years ended October 31, 2002, and October 31, 2001. This discussion should be read in conjunction with the consolidated financial statements and related Notes on pages 67A to 102A.

Business segment results

Net income from RBC Banking increased 30% to $1,531 million in 2002 from $1,181 million in 2001, reflecting the acquisition of Centura Banks on June 5, 2001, and a lower provision for credit losses. ROE increased from 16.9% to 19.1% due to the higher earnings.

Net income from RBC Insurance was down 12% to $117 million in 2002. Earnings in 2001 were adversely affected by claims resulting from the events of September 11, 2001. ROE increased from 15.0% to 15.7% due to lower common equity attributed to this segment.

Net income from RBC Investments was down 33% from 2001 to $343 million primarily due to the gain on sale of RT Capital Management's institutional money management business in 2001. ROE declined from 27.2% to 11.0% due to lower earnings and higher common equity attributed to this segment.

Net income from RBC Capital Markets increased by 24% to $417 million, as expenses fell far more than revenues. ROE was 10.0%, up from 9.3% in 2001 due to higher earnings.

Net income from RBC Global Services was down 35% to $171 million due to higher loan losses pertaining to Argentine loans, and lower net interest income and foreign exchange revenues. ROE declined from 48.9% to 28.4%, due to lower earnings and higher common equity attributed to this segment.

The Other segment's net income improved to $183 million from $(15) million in 2001. ROE increased from (2.8)% to 24.4% due to higher earnings.

Net interest income

Net interest income increased 10% to $6.9 billion in 2002 from $6.3 billion in 2001, largely due to increased net interest income associated with U.S. acquisitions.

Non-interest income

Non-interest income increased 6% to $10.3 billion in 2002 and accounted for 60% of total revenues.

Non-interest expense

Non-interest expense increased 7% to $10.4 billion, largely due to higher human resources costs, reflecting an increase in salaries expense and benefits expense.

Taxes

Income taxes were $1.4 billion in 2002, up from $1.3 billion in 2001, while the effective income tax rate was 32.2% compared to 34.7% in 2001.

Provision for credit losses

The provision for credit losses decreased 5% to $1,065 million in 2002 from $1,119 million in 2001. The total allowance for loan losses was $2.2 billion, or 1.0% of total loans, acceptances, and reverse purchase agreements down from $2.3 billion or 1.1% in 2001.

Quarterly financial information

Selected financial information for the eight most recently completed quarters is shown on page 108A.

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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 pursuant to Subsection 308 of the *Bank Act* (Canada), which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada, the financial statements are to be prepared in accordance with Canadian 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 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* (Canada), 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, 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 25, 2003

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, 2003, and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. 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 audit.

We conducted our audit 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, 2003, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

We also reported separately on November 25, 2003, 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, 2003, consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America.

The consolidated balance sheet as at October 31, 2002, and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the two-year period ended October 31, 2002, prepared in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada, were audited by Deloitte & Touche LLP and PricewaterhouseCoopers LLP who expressed an opinion without reservation on those statements in their report dated

November 19, 2002.

Deloitte & Touche LLP
Chartered Accountants
Toronto, November 25, 2003

Consolidated balance sheet

As at October 31 (C$ millions)	2003	2002
Assets		
Cash resources		
Cash and due from banks	**$ 2,887**	$ 2,534
Interest-bearing deposits with banks	**14,667**	18,789
	17,554	21,323
Securities		
Trading account (pledged — $13,145 and $6,558)	**81,827**	68,328
Investment account	**35,238**	25,078
Loan substitute	**325**	394
	117,390	93,800
Assets purchased under reverse repurchase agreements	**36,289**	35,831
Loans		
Residential mortgage	**78,817**	72,840
Personal	**34,003**	31,956
Credit card	**4,816**	4,914
Business and government	**54,813**	61,751
	172,449	171,461
Allowance for loan losses	**(2,055)**	(2,203)
	170,394	169,258
Other		
Customers' liability under acceptances	**5,943**	8,051
Derivative-related amounts	**35,612**	30,258
Premises and equipment	**1,670**	1,653
Goodwill	**4,587**	5,004
Other intangibles	**580**	665
Other assets	**13,014**	11,113
	61,406	56,744
	$403,033	$376,956
Liabilities and shareholders' equity		
Deposits		
Personal	**$106,709**	$101,892
Business and government	**129,860**	119,591
Bank	**22,576**	22,003
	259,145	243,486
Other		
Acceptances	**5,943**	8,051
Obligations related to securities sold short	**22,855**	19,110
Obligations related to assets sold under repurchase agreements	**23,735**	21,109
Derivative-related amounts	**37,775**	32,137
Insurance claims and policy benefit liabilities	**5,256**	2,825
Other liabilities	**21,318**	23,372
	116,882	106,604
Subordinated debentures	**6,243**	6,614
Non-controlling interest in subsidiaries	**2,388**	1,469
Shareholders' equity		
Capital stock		
Preferred	**832**	1,545

Common (shares issued and outstanding — 656,021,122 and 665,257,068)	**7,018**	6,979
Additional paid-in capital	**85**	78
Retained earnings	**10,440**	10,181
	18,375	18,783
	$403,033	$376,956

Gordon M. Nixon
President & Chief Executive Officer

Robert B. Peterson
Director

Consolidated statement of income

For the year ended October 31 (C$ millions)	2003	2002	2001
Interest income			
Loans	**$ 10,150**	$ 10,463	$ 12,032
Securities	**2,740**	2,852	3,075
Assets purchased under reverse repurchase agreements	**787**	651	1,163
Deposits with banks	**376**	483	831
	14,053	14,449	17,101
Interest expense			
Deposits	**5,452**	5,709	8,712
Other liabilities	**1,583**	1,399	1,668
Subordinated debentures	**376**	406	410
	7,411	7,514	10,790
Net interest income	**6,642**	6,935	6,311
Non-interest income			
Insurance premiums, investment and fee income	**2,356**	2,043	1,824
Trading revenues	**2,009**	1,766	1,820
Investment management and custodial fees	**1,143**	1,177	1,094
Securities brokerage commissions	**1,108**	1,223	1,045
Deposit and payment service charges	**1,078**	1,041	887
Mutual fund revenues	**673**	723	692
Underwriting and other advisory fees	**671**	643	478
Card service revenues	**518**	496	458
Foreign exchange revenues, other than trading	**279**	276	303
Credit fees	**227**	223	237
Mortgage banking revenues	**198**	222	206
Securitization revenues	**165**	174	123
Gain (loss)on sale of investment account securities	**31**	(111)	(130)
Gain from divestitures	**—**	—	445
Other	**320**	424	283
	10,776	10,320	9,765
Total revenues	**17,418**	17,255	16,076
Provision for credit losses	**721**	1,065	1,119
Insurance policyholder benefits, claims and acquisition expense	**1,696**	1,535	1,344
Non-interest expense			
Human resources	**6,448**	6,315	5,723
Occupancy	**775**	796	724
Equipment	**834**	820	771
Communications	**757**	801	686
Professional fees	**466**	419	412
Outsourced item processing	**292**	306	303
Amortization of goodwill	**—**	—	248
Amortization of other intangibles	**71**	72	36
Other	**766**	891	852
	10,409	10,420	9,755
Net income before income taxes	**4,592**	4,235	3,858
Income taxes	**1,460**	1,365	1,340
Net income before non-controlling interest	**3,132**	2,870	2,518
Non-controlling interest in net income of subsidiaries	**127**	108	107
Net income	**$ 3,005**	$ 2,762	$ 2,411
Preferred share dividends	**68**	98	135

Net income available to common shareholders	**$ 2,937**	$ 2,664	$ 2,276
Average number of common shares (in thousands)	**662,080**	672,571	641,516
Earnings per share (in dollars)	**$ 4.44**	$ 3.96	$ 3.55
Average number of diluted common shares (in thousands)	**669,016**	678,120	647,216
Diluted earnings per share (in dollars)	**$ 4.39**	$ 3.93	$ 3.52
Dividends per share (in dollars)	**$ 1.72**	$ 1.52	$ 1.38

Consolidated statement of changes in shareholders' equity

For the year ended October 31 (C$ millions)	2003	2002	2001
Preferred shares			
Balance at beginning of year	**$ 1,545**	$ 2,024	$ 2,037
Issued	**—**	—	250
Redeemed for cancellation	**(645)**	(468)	(300)
Translation adjustment on shares denominated in foreign currency	**(68)**	(11)	37
Balance at end of year	**832**	1,545	2,024
Common shares			
Balance at beginning of year	**6,979**	6,940	3,076
Issued	**193**	191	3,976
Purchased for cancellation	**(154)**	(152)	(112)
Balance at end of year	**7,018**	6,979	6,940
Additional paid-in capital			
Balance at beginning of year	**78**	33	—
Renounced stock appreciation rights, net of related income taxes	**—**	31	—
Stock options granted	**7**	14	33
Balance at end of year	**85**	78	33
Retained earnings			
Balance at beginning of year	**10,181**	9,168	8,428
Net income	**3,005**	2,762	2,411
Preferred share dividends	**(68)**	(98)	(135)
Common share dividends	**(1,137)**	(1,022)	(897)
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	**(698)**	(612)	(397)
Issuance costs, net of related income taxes	**(4)**	(1)	(19)
Change in unrealized foreign currency translation gains and losses	**(2,988)**	(59)	473
Impact of hedging unrealized foreign currency translation gains and losses, net of related income taxes	**2,149**	43	(475)
Balance at end of year	**10,440**	10,181	9,168
Shareholders' equity at end of year	**$18,375**	$18,783	$18,165

Consolidated statement of cash flows

For the year ended October 31 (C$ millions)	2003	2002	2001
Cash flows from operating activities			
Net income	**$ 3,005**	$ 2,762	$ 2,411
Adjustments to determine net cash provided by (used in) operating activities			
Provision for credit losses	**721**	1,065	1,119
Depreciation	**398**	407	389
Restructuring	**—**	—	91
Amortization of goodwill and other intangibles	**71**	72	284
Gain on sale of premises and equipment	**(15)**	(35)	(42)
Gain on divestitures	**—**	—	(445)
Gain on loan securitizations	**(34)**	(54)	(29)
Loss on investments in associated corporations	**34**	—	—
(Gain) loss on sale of investment account securities	**(31)**	111	130
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	**46**	236	1,062
Net change in accrued interest receivable and payable	**100**	(263)	(142)
Current income taxes	**672**	419	(460)
Deferred income taxes	**275**	98	(165)
Derivative-related assets	**(5,354)**	(3,018)	(8,076)
Derivative-related liabilities	**5,638**	3,491	10,070
Trading account securities	**(13,498)**	(10,136)	(11,836)
Obligations related to securities sold short	**3,745**	2,667	2,869
Other	**(3,345)**	(850)	(4,435)
Net cash used in operating activities	**(7,572)**	(3,028)	(7,205)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	**4,122**	(3,046)	(135)
Change in loans, net of loan securitizations	**(5,225)**	(3,087)	(2,930)
Proceeds from loan securitizations	**1,742**	1,691	1,720
Proceeds from sale of investment account securities	**19,340**	16,393	12,501
Proceeds from maturity of investment account securities	**25,428**	15,717	14,021
Purchases of investment account securities	**(49,750)**	(33,093)	(27,494)
Decrease in loan substitute securities	**69**	44	27
Net acquisitions of premises and equipment	**(420)**	(419)	(370)
Net proceeds from sale of real estate	**—**	—	57
Change in assets purchased under reverse repurchase agreements	**(458)**	39	(17,474)
Net cash used in acquisition of subsidiaries	**(281)**	(99)	(3,120)
Net proceeds from divestitures	**—**	—	478
Net cash used in investing activities	**(5,433)**	(5,860)	(22,719)
Cash flows from financing activities			
Issue of RBC Trust Capital Securities (RBC TruCS)	**900**	—	750
Change in deposits	**14,790**	8,085	19,225
Issue of subordinated debentures	**—**	635	1,025
Repayment of subordinated debentures	**(100)**	(501)	(580)
Issue of preferred shares	**—**	—	250
Redemption of preferred shares for cancellation	**(645)**	(468)	(300)
Issuance costs	**(4)**	(1)	(19)
Issue of common shares	**183**	168	657
Purchase of common shares for cancellation	**(852)**	(764)	(509)
Payment of dividends	**(1,181)**	(1,104)	(972)
Change in obligations related to assets sold under repurchase agreements	**2,626**	245	11,629
Change in short-term borrowings of subsidiaries	**(2,359)**	3,335	(387)
Net cash provided by financing activities	**13,358**	9,630	30,769
Net change in cash and due from banks	**353**	742	845
Cash and due from banks at beginning of year	**2,534**	1,792	947
Cash and due from banks at end of year	**$ 2,887**	$ 2,534	$ 1,792
Supplemental disclosure of cash flow information			
Amount of interest paid in year	**$ 7,170**	$ 8,229	$ 11,149
Amount of income taxes paid in year	**$ 1,723**	$ 738	$ 1,443

NOTE 1 Significant accounting policies

These consolidated financial statements have been prepared in accordance with Subsection 308 of the *Bank Act* (Canada),which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the OSFI, are summarized below. These accounting policies conform, in all material respects, to Canadian 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. The equity method is used to account for investments in associated corporations in which we have significant influence. These investments are reported in Other assets. Our share of earnings, gains and losses realized on dispositions and writedowns to reflect other than temporary impairment in value of these investments are included in Non-interest 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.

The effects of translating operations of our subsidiaries, foreign branches and associated corporations with a functional currency other than the Canadian dollar are included in Retained earnings along with related hedge and tax effects. On disposal of such investments, the accumulated net translation gain or loss is included in Non-interest income. Other foreign currency translation gains and losses (net of hedging activities) are included in Non-interest 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 Non-interest 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 investment account securities, which are calculated on an average cost basis, and writedowns to reflect other than temporary impairment in value are included in Gain (loss) on sale of investment account securities in Non-interest 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 and collection efforts are reasonably expected to result in repayment of debt within 180 days

past due. 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 their fair value less costs to sell. Any excess of the carrying value of the loan over the recorded fair value of the assets acquired is recognized by a charge to the Provision for credit losses.

Fees that relate to activities such 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 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. 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 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 write-off trends, 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 Non-interest income.

Derivatives

Derivatives are primarily used in sales and trading activities. 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.

When used in sales and trading activities, the realized and unrealized gains and losses on derivatives are recognized in Non-interest 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 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 a 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.

Fair value hedge transactions predominantly use interest rate swaps to hedge the changes in the fair value of an asset, liability or firm commitment. Cash flow hedge transactions predominantly use interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. When a non-trading derivative is designated and functions effectively as a fair value or cash flow hedge, the income or expense of the derivative is recognized over the life of the hedged asset or liability as an adjustment to Interest income or Interest expense.

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 Retained earnings.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or the derivative is terminated or sold. The fair value of the derivative is recognized in Derivative-related amounts in assets or liabilities at that time and the gain or loss is deferred and recognized in Net interest income in the periods that the hedged item affects income. Hedge accounting is also discontinued on the sale or early termination of the hedged item. The fair value of the derivative is recognized in Derivative-related amounts in assets or liabilities at that time and the gain or loss is recognized in Non-interest income.

Non-trading derivatives that do not qualify for hedge accounting are carried at fair value on a gross basis as Derivative-related amounts in assets and liabilities with changes in fair value recorded in Non-interest income. These non-trading derivatives are still eligible for designation in future hedging relationships. Upon a designation, any previously recorded fair value on the Consolidated balance sheet is amortized to Non-interest income.

NOTE 1 Significant accounting policies (continued)

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 income.

Business combinations, goodwill and other intangibles

All business combinations are 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. Effective November 1, 2001, goodwill and indefinite life intangibles are no longer amortized but are subject to fair value impairment tests on at least an annual basis. Goodwill impairment is assessed at the reporting unit level on at least an annual basis on August 1. 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.

If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit.

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 more likely than not 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 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.

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 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, and the loans removed from the Consolidated balance sheet when we are deemed to have surrendered control over such assets and have received in exchange consideration other than beneficial interests in these transferred loans. For a surrender of control to occur, the transferred loans must be isolated from the seller, even in bankruptcy or other receivership; the purchaser must have the legal right to sell or pledge the transferred loans, or if the purchaser is a Qualifying Special Purpose Entity meeting certain restrictions established by CICA Accounting Guideline 12, *Transfers of Receivables* (AcG 12), its investors have the right to sell or pledge their ownership interest in the entity; and the seller must not continue to control the transferred loans through an agreement to repurchase them or have a right to cause the loans to be returned. If the conditions are not met, the transfer is considered to be a secured borrowing, the loans remain on the Consolidated balance sheet and the proceeds are recognized as a liability.

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 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. 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

Investments are included in Investment account securities. Premiums from long-duration contracts, primarily life insurance, are recognized in Insurance premiums, investment and fee income under Non-interest income when due. Premiums from short-duration contracts, primarily property and casualty, and fees for administrative services are recognized in Insurance premiums, investment and fee income over the related contract period.

Insurance claims and policy benefit liabilities represent current claims and 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 provisions for adverse deviation. These assumptions are updated to reflect the results of actual experience and market conditions. 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 fixed income investments that support life insurance liabilities are deferred and amortized to Insurance premiums, investment and fee income over the remaining term to maturity of the investments sold to a maximum period of 20 years. For equities, the realized gains and losses are deferred and brought into Insurance premiums, investment and fee income at the quarterly rate of 5% of unamortized deferred gains and losses. The differences between the market value and adjusted carrying cost of equity securities investments are reduced quarterly by 5%. Specific investments are written down to market or the net realizable value if it is determined that any impairment in value is other than temporary. The writedown is recorded against Insurance premiums, investment and fee income in the period the impairment is recognized.

Acquisition costs for insurance consist of commissions, certain underwriting costs and other costs that vary with and are primarily related to the acquisition of new business. Deferred acquisition costs for life insurance are implicitly recognized in Insurance 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.

Segregated funds are lines of business in which the company issues a contract where the benefit amount is directly linked to the market value of the investments held in the underlying fund. The contractual arrangement is such that the underlying assets are registered in our name but the segregated fund policyholder bears the risk and rewards of the fund's investment performance. We provide minimum death benefit and maturity value guarantees on segregated funds. The liability associated with these minimum guarantees is recorded in Insurance claims and policy benefit liabilities.

Segregated funds are not included in the consolidated financial statements. We derive only fee income from segregated funds, reflected in Insurance premiums, investment and fee income. Fee income includes management fees, mortality, policy, administration and surrender charges.

Significant accounting changes

Derivatives

We early adopted CICA Accounting Guideline 13, *Hedging Relationships*, on November 1, 2002, the details of which are described earlier in the Derivatives section and in note 21.

Guarantees

In January 2003, the CICA issued Accounting Guideline 14, *Disclosure of Guarantees* (AcG 14), which clarifies disclosure requirements for certain guarantees. The effective date is for financial statements of interim and annual periods beginning on or after January 1, 2003.

Stock-based compensation

We adopted the fair value method of accounting recommended by the CICA in Section 3870, *Stock-based Compensation and Other Stock-based Payments*, prospectively for new stock-based compensation awards granted after November 1, 2002. The impact of this adoption is included in note 18.

Significant future accounting changes

Consolidation of Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG 15). The Guideline is harmonized with Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities*, and provides guidance for applying the principles in Section 1590, *Subsidiaries*, to those entities (defined as Variable Interest Entities (VIEs) and more commonly referred to as special purpose entities (SPEs)), in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack either voting control, an obligation to absorb expected losses, or the right to receive expected residual returns. AcG 15 requires consolidation of VIEs by the Primary Beneficiary. The Primary Beneficiary is defined as the party who has exposure to the majority of a VIE's expected losses and/or expected residual returns. The Guideline will be effective for all annual and interim periods beginning on or after November 1, 2004. Following is a summary of the anticipated impact of adopting AcG 15 for the major categories of VIEs that we are involved with.

Securitization of client financial assets

We administer multi-seller asset-backed commercial paper conduit programs (multi-sellers), which purchase financial assets from our clients (totalling $26.8 billion as at October 31, 2003) and finance those purchases by issuing asset-backed commercial paper. Clients utilize multisellers to diversify their financing sources and to reduce funding costs. We provide backstop liquidity facilities and partial credit enhancement to the multi-sellers. These are included in our disclosure on guarantees in note 20 and represent our maximum possible exposure to loss, which was $25.7 billion as at October 31, 2003. The commercial paper is non-recourse to us, except through our participation in liquidity and/or credit enhancement facilities, and we have no rights to the assets owned by the multi-sellers. We are currently in the process of restructuring these multi-sellers and as a result we do not expect to consolidate the assets and liabilities of these vehicles on our Consolidated balance sheet.

Securitization of our financial assets

We employ VIEs in the process of securitizing our assets. We do not expect to consolidate these VIEs under AcG15 either because such a VIE is a qualifying SPE under AcG 12 which is specifically exempt from consolidation under AcG 15 or because we are not the Primary Beneficiary. For details on our securitization activities please refer to note 7.

Mutual funds

We sponsor several open-end mutual funds, some of which may be VIEs. We are involved with their ongoing management and administration for which we earn a fee based on asset value. We do not guarantee either principal or returns to the investors in these funds. We may be the Primary Beneficiary of the VIE mutual funds that experience low volatility of returns, such as money market funds, due to our role as trustee and fund manager, which entails decision-making and results in our fees being included in expected residual returns. Consolidating these funds would increase the Consolidated balance sheet by approximately $13 billion as estimated at October 31, 2003. Our maximum exposure to loss from our involvement with the VIE funds is $23 million as at October 31, 2003, primarily as a result of our investments in seed capital. Our rights to the assets of these mutual funds are restricted to this seed capital. The other investors in these funds do not have recourse to us.

NOTE 1 Significant accounting policies (continued)

Asset management

We act as collateral manager for several Collateralized Debt Obligation (CDO) entities, which invest in leveraged bank-initiated term loans, high yield bonds and mezzanine corporate debt. The notional amount of the assets within the CDOs we managed at the end of October 31, 2003, is $1.1 billion and our maximum exposure to loss is $13 million which represents our investment in a first-loss tranche. We currently consolidate a CDO with assets of $.4 billion. We are evaluating these CDOs and it is possible that we are the Primary Beneficiary. We have no rights to the assets of these CDOs and the creditors of these CDOs have no recourse to us, except as a result of our investment in the first-loss tranche.

Creation of investment products

We use repackaging entities, which generally transform credit derivatives into cash instruments, to distribute credit risk and create unique credit products to meet investors' specific requirements. We may enter into derivative contracts with these entities in order to convert various risk factors such as yield, currency or credit risk of underlying assets to meet the needs of the investors. We transfer assets to these entities as collateral for notes issued, which do not meet sale recognition criteria under AcG 12. We retain all the economic risks and rewards of these assets, which are already accounted for on our Consolidated balance sheet and amounted to $1.5 billion as at October 31, 2003. In addition, we also invest in the notes issued by these entities and held $.5 billion as at October 31, 2003. We are the Primary Beneficiary where we hold notes that expose us to a majority of the expected losses. Since the assets are already included on our Consolidated balance sheet pursuant to AcG 12, the impact of consolidation is not expected to be material.

Compensation vehicles

We offer certain employees stock-based compensation plans and co-investment opportunities in investment portfolios. Where we are entitled to forfeitures or unvested shares or where we have financed the employees' investment, we are generally considered the Primary Beneficiary of the vehicles used for this purpose due to our relationship with the employees. These vehicles had total assets of $.2 billion as at October 31, 2003, which represent our maximum exposure to loss.

Assets administered in trust

We act as trustee administering assets settled by clients, on behalf of designated beneficiaries. Clients use these arrangements primarily for asset protection, intergenerational wealth transfer, and estate and financial planning. Where we have lending relationships with the trust, they are fully collateralized with secure assets, thereby our exposure to loss is nil. We may have to consolidate trust arrangements with assets approximating $.6 billion as at October 31, 2003. We have no rights to these assets except for our fees and recovery of expenses. The beneficiaries do not have recourse to us.

Capital trusts

This year we established an open-ended trust which issued $.9 billion of innovative Tier 1 capital, and we also issued a senior deposit note of the same amount to the trust. We currently consolidate this trust. However, under AcG 15 we would not consolidate this trust as it would be a VIE and we would not be its Primary Beneficiary. OSFI has confirmed that this issuance will continue to receive innovative Tier regulatory capital treatment, regardless of the final accounting effects of AcG 15.

We are involved in various capacities — such as lender, derivative counterparty, investor, manager, trustee — with several other entities that may potentially be VIEs. These include entities set up for or by clients for structured finance, securitization and other purposes. We continue to evaluate our involvement with potential VIEs, explore restructuring opportunities and monitor developments from the CICA and the FASB that affect our current interpretation of AcG 15.

Liabilities and equity

In November 2003, the Accounting Standards Board (AcSB) approved a revision to CICA Section 3860, *Financial Instruments: Disclosure and Presentation*, to require certain obligations that must or could be settled with a variable number of the issuer's own equity instruments to be presented as a liability. The implication of the proposed revision is that securities issued by us that give us the unrestricted right to settle the principal amount in cash or in the equivalent value of our own equity instruments will no longer be presented as equity in our financial statements. The AcSB determined that the revisions should be effective for all fiscal years beginning on or after November 1, 2004.

Financial instruments

On March 31, 2003, the CICA issued three exposure drafts: *Financial Instruments — Recognition and Measurement*, *Hedges* and *Comprehensive Income*, which will increase harmonization with U.S. accounting standards. Although they are not final, these exposure drafts are expected to require primarily the following:

Financial assets will be classified as either Held to maturity, Loans and receivables, Held for trading or Available for sale. Held to maturity classification will be restricted to fixed maturity instruments that we intend and are able to hold to maturity. Loans and receivables and Held to maturity investments will be accounted for at amortized cost. In addition to the securities acquired for selling in the near term, Held for trading classification will be permitted for any financial instrument on its initial recognition. Instruments Held for trading will be accounted for at fair value with realized and unrealized gains and losses reported in Net income. The remaining securities will be classified as Available for sale. These will be measured at fair value with unrealized gains and losses, not affecting net income, but reported in a new category in Shareholders' equity called Other comprehensive income.

Derivatives will be classified as Held for trading unless designated as hedging instruments. All derivatives, including embedded derivatives

that are not closely related to the host contract, will be measured at fair value. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivatives' fair value will be reported in net income and offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of changes in the derivatives' fair value will be initially recognized in the new category, Other comprehensive income. These will subsequently be reclassified to Net income in the periods Net income is affected by the variability in the cash flows of the hedged item.

Other comprehensive income will be a new category in Shareholders' equity including, in addition to the items mentioned above, unrealized foreign currency translation gains and losses, net of hedging activities.

The final accounting standards are expected to be effective for fiscal years beginning on or after October 1, 2005.

NOTE 2 Significant acquisitions

2003

During 2003, we completed the acquisitions of Admiralty Bancorp, Inc. (Admiralty), Business Men's Assurance Company of America (BMA) and Sterling Capital Mortgage Company (SCMC). The details of these acquisitions are as follows:

	Admiralty	BMA	SCMC
Acquisition date	January 29, 2003	May 1, 2003	September 30, 2003
Business segment	RBC Banking	RBC Insurance/RBC Investments	RBC Banking
Percentage of shares acquired	100%	100%	100%
Purchase consideration	Cash payment of US$153	Cash payment of US$207(1)	Cash payment of US$100
Fair value of tangible assets acquired	$942	$3,099	$470
Fair value of liabilities assumed	(866)	(2,822)	(437)
Fair value of identifiable net tangible assets acquired	76	277	33
Core deposit intangibles (2)	23	—	—
Goodwill	134	19	103
Total purchase consideration	$233	$296	$136

(1) Includes the related acquisition of Jones & Babson Inc. by RBC Dain Rauscher for cash purchase consideration of US$19 million in exchange for net tangible assets with a fair value of $9 million and goodwill of $19 million.

(2) Core deposit intangibles for Admiralty are amortized on a straight-line basis over an estimated average useful life of 10 years.

2002

During 2002, we completed the acquisitions of the private banking business of Barclays PLC in the Americas (Barclays) and Eagle Bancshares, Inc. (Eagle Bancshares). 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	Cash payment of US$120	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)	80	—
Goodwill	—	133
Total purchase consideration	$181	$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 3 Results by business and geographic segment

2003	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,546	$ —	$ 419	$ 409	$ 166	$ 102	$ 6,642	$ 5,186	$ 1,188	$ 268
Non-interest income	2,127	2,356	3,110	2,247	824	112	10,776	5,382	3,618	1,776
Total revenues	7,673	2,356	3,529	2,656	990	214	17,418	10,568	4,806	2,044
Provision for credit losses	554	—	(2)	195	2	(28)	721	527	106	88
Insurance policyholder benefits, claims and acquisition expense	—	1,696	—	—	—	—	1,696	679	580	437
Non-interest expense	4,650	460	2,912	1,671	714	2	10,409	5,992	3,511	906
Net income before income taxes	2,469	200	619	790	274	240	4,592	3,370	609	613
Income taxes	900	(16)	209	278	97	(8)	1,460	1,202	209	49
Non-controlling interest	8	—	—	4	—	115	127	114	8	5
Net income	$ 1,561	$ 216	$ 410	$ 508	$ 177	$ 133	$ 3,005	$ 2,054	$ 392	$ 559
Total average assets (1)	$162,400	$ 6,700	$ 17,600	$198,500	$ 2,100	$9,100	$396,400	$230,000	$81,200	$85,200

2002	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,557	$ —	$ 371	$ 532	$ 137	$ 338	$ 6,935	$ 5,472	$ 1,106	$ 357
Non-interest income	2,073	2,043	3,274	2,112	820	(2)	10,320	4,969	3,682	1,669
Total revenues	7,630	2,043	3,645	2,644	957	336	17,255	10,441	4,788	2,026
Provision for credit losses	626	—	(1)	465	10	(35)	1,065	529	440	96
Insurance policyholder benefits, claims and acquisition expense	—	1,535	—	—	—	—	1,535	498	502	535
Non-interest expense	4,528	437	3,146	1,627	668	14	10,420	5,920	3,676	824
Net income before income taxes	2,476	71	500	552	279	357	4,235	3,494	170	571
Income taxes	937	(46)	157	135	108	74	1,365	1,308	14	43
Non-controlling interest	8	—	—	—	—	100	108	100	2	6
Net income	$ 1,531	$ 117	$ 343	$ 417	$ 171	$ 183	$ 2,762	$ 2,086	$ 154	$ 522
Total average assets (1)	$156,500	$ 5,600	$ 15,100	$178,200	$ 2,500	$9,400	$367,300	$225,700	$72,600	$69,000

2001	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,343	$ —	$ 385	$ 409	$ 147	$ 27	$ 6,311	$ 5,512	$ 371	$ 428
Non-interest income	1,869	1,824	2,861	2,346	851	14	9,765	5,548	2,792	1,425
Total revenues	7,212	1,824	3,246	2,755	998	41	16,076	11,060	3,163	1,853
Provision for credit losses	732	—	2	407	(2)	(20)	1,119	757	379	(17)
Insurance policyholder benefits, claims and acquisition expense	—	1,344	—	—	—	—	1,344	504	325	515
Non-interest expense	4,389	375	2,507	1,804	599	81	9,755	6,326	2,715	714

Net income before income taxes	2,091	105	737	544	401	(20)	3,858	3,473	(256)	641
Income taxes	900	(28)	224	208	138	(102)	1,340	1,410	(85)	15
Non-controlling interest	10	—	—	—	—	97	107	97	2	8
Net income (loss)	$ 1,181	$ 133	$ 513	$ 336	$ 263	$ (15)	$ 2,411	$ 1,966	$ (173)	$ 618
Total average assets (1)	$143,100	$ 5,300	$ 11,200	$156,400	$ 2,400	$8,700	$327,100	$210,500	$50,200	$66,400

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

For management reporting purposes, our operations are grouped into the main 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 management reporting process measures the performance of these business segments based on our management structure and is not necessarily comparable with similar information for other financial services companies.

We use a management reporting model that includes methodologies for funds transfer pricing, attribution of economic capital and cost transfers to measure business segment results. Operating revenues and expenses directly associated with each segment are included in the business segment results. Transfer pricing of funds and inter-segment goods and services are generally at market rates. Overhead costs, indirect expenses and capital are attributed to the business segments based on allocation and risk-based methodologies which are subject to ongoing review.

For geographic reporting, our segments are grouped into Canada, United States and Other International. Transactions are recorded based on client location and local residing currency and are subject to foreign exchange rate fluctuations with respect to the movement in the Canadian dollar.

NOTE 4 Goodwill and Other intangibles

We have completed the annual test for goodwill impairment in all reporting units and have determined that good will is not impaired.

The projected amortization of Other intangibles for each of the years ending October 31, 2004, to October 31, 2008, is approximately $70 million.

The following table discloses the changes in goodwill over 2003 and 2002.

Goodwill

	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Total
Balance at October 31, 2001	$ 2,105	$ 204	$ 1,782	$ 711	$ 117	$ 4,919
Goodwill acquired during the year	179	—	—	—	2	181
Other adjustments (1)	(55)	(8)	(21)	(14)	2	(96)
Balance at October 31, 2002	2,229	196	1,761	697	121	5,004
Goodwill acquired during the year	256	—	43	—	—	299
Other adjustments (1)	(347)	(28)	(258)	(84)	1	(716)
Balance at October 31, 2003	$ 2,138	$ 168	$ 1,546	$ 613	$ 122	$ 4,587

(1) Other adjustments include primarily foreign exchange translations on non-Canadian dollar denominated goodwill.

Other intangibles

	2003			2002		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Core deposit intangibles	**$ 381**	**$ (93)**	**$ 288**	$ 423	$ (50)	$ 373
Customer lists and relationships	**314**	**(71)**	**243**	318	(52)	266
Mortgage servicing rights	**75**	**(27)**	**48**	41	(18)	23
Other intangibles	**3**	**(2)**	**1**	5	(2)	3
Total	**$ 773**	**$ (193)**	**$ 580**	$ 787	$ (122)	$ 665

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, as goodwill is no longer amortized, but assessed for impairment effective November 1, 2001.

	2003	2002	2001
Net income:			
Reported net income	**$ 3,005**	$ 2,762	$ 2,411
Amortization of goodwill, net of related income taxes	**—**	—	246
Adjusted net income	**$ 3,005**	$ 2,762	$ 2,657
Earnings per share:			
Reported earnings per share	**$ 4.44**	$ 3.96	$ 3.55
Amortization of goodwill, net of related income taxes	**—**	—	.38
Adjusted earnings per share	**$ 4.44**	$ 3.96	$ 3.93
Diluted earnings per share:			
Reported diluted earnings per share	**$ 4.39**	$ 3.93	$ 3.52
Amortization of goodwill, net of related income taxes	**—**	—	.38
Adjusted diluted earnings per share	**$ 4.39**	$ 3.93	$ 3.90

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	2003 Total	2002 Total
Trading account							
Canadian government debt	**$ 6,024**	**$ 5,235**	**$ 1,218**	**$ 1,194**	**$ —**	**$ 13,671**	$12,950
U.S. Treasury and other U.S. agencies	**1,645**	**1,876**	**319**	**458**	**—**	**4,298**	1,679
Other OECD government debt	**1,266**	**957**	**878**	**475**	**—**	**3,576**	3,833
Mortgage-backed securities	**107**	**272**	**135**	**375**	**—**	**889**	583
Asset-backed securities	**73**	**91**	**2,807**	**3,334**	**—**	**6,305**	6,540
Corporate debt	**4,109**	**4,086**	**1,884**	**1,419**	**—**	**11,498**	9,786
Other debt	**5,426**	**6,459**	**1,071**	**741**	**767**	**14,464**	9,214
Equities	**—**	**—**	**—**	**—**	**27,126**	**27,126**	23,743
	18,650	**18,976**	**8,312**	**7,996**	**27,893**	**81,827**	68,328
Investment account							
Canadian government debt							
Amortized cost	**4,151**	**4,840**	**524**	**308**	**—**	**9,823**	5,519
Estimated fair value	**4,158**	**4,902**	**554**	**338**	**—**	**9,952**	5,613
Yield (2)	**2.9%**	**4.1%**	**5.0%**	**6.4%**	**—**	**3.7%**	4.5%
U.S. Treasury and other U.S. agencies							
Amortized cost	**1,481**	**2,972**	**308**	**67**	**—**	**4,828**	2,068
Estimated fair value	**1,481**	**2,960**	**281**	**67**	**—**	**4,789**	2,188
Yield (2)	**1.0%**	**2.2%**	**1.3%**	**4.9%**	**—**	**1.8%**	4.6%
Other OECD government debt							
Amortized cost	**4,375**	**326**	**74**	**—**	**—**	**4,775**	2,605
Estimated fair value	**4,378**	**329**	**74**	**—**	**—**	**4,781**	2,633
Yield (2)	**.1%**	**.8%**	**—**	**—**	**—**	**.1%**	.7%
Mortgage-backed securities							
Amortized cost	**115**	**3,546**	**536**	**1,315**	**—**	**5,512**	8,308
Estimated fair value	**120**	**3,570**	**536**	**1,317**	**—**	**5,543**	8,465
Yield (2)	**6.7%**	**4.2%**	**4.8%**	**4.9%**	**—**	**4.5%**	4.8%
Asset-backed securities							
Amortized cost	**48**	**125**	**104**	**48**	**—**	**325**	358
Estimated fair value	**48**	**125**	**104**	**45**	**—**	**322**	375
Yield (2)	**2.0%**	**7.3%**	**6.4%**	**2.9%**	**—**	**5.6%**	7.2%
Corporate debt							
Amortized cost	**1,068**	**1,155**	**290**	**543**	**—**	**3,056**	3,447
Estimated fair value	**1,079**	**1,172**	**304**	**552**	**—**	**3,107**	3,511
Yield (2)	**1.4%**	**2.7%**	**6.3%**	**5.7%**	**—**	**3.1%**	4.3%
Other debt							
Amortized cost	**4,103**	**869**	**200**	**266**	**188**	**5,626**	1,501
Estimated fair value	**4,085**	**879**	**207**	**279**	**186**	**5,636**	1,504
Yield (2)	**.5%**	**5.1%**	**5.8%**	**6.5%**	**4.2%**	**3.1%**	2.7%
Equities							
Cost	**—**	**—**	**51**	**—**	**1,242**	**1,293**	1,272
Estimated fair value	**—**	**—**	**40**	**—**	**1,290**	**1,330**	1,240
Amortized cost	**15,341**	**13,833**	**2,087**	**2,547**	**1,430**	**35,238**	25,078
Estimated fair value	**15,349**	**13,937**	**2,100**	**2,598**	**1,476**	**35,460**	25,529
Loan substitute							
Cost	**—**	**—**	**8**	**—**	**317**	**325**	394
Estimated fair value	**—**	**—**	**8**	**—**	**323**	**331**	394
Total carrying value of securities	**$33,991**	**$32,809**	**$10,407**	**$10,543**	**$29,640**	**$117,390**	$93,800
Total estimated fair value of securities	**$33,999**	**$32,913**	**$10,420**	**$10,594**	**$29,692**	**$117,618**	$94,251

(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) 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 Investment account securities

	2003				2002			
	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	**$ 9,823**	**$ 135**	**$ (6)**	**$ 9,952**	$ 5,519	$ 97	$ (3)	$ 5,613
U.S. Treasury and other U.S. agencies	**4,828**	**16**	**(55)**	**4,789**	2,068	120	—	2,188
Other OECD government debt	**4,775**	**6**	**—**	**4,781**	2,605	28	—	2,633
Mortgage-backed securities	**5,512**	**59**	**(28)**	**5,543**	8,308	158	(1)	8,465
Asset-backed securities	**325**	**5**	**(8)**	**322**	358	28	(11)	375
Corporate debt	**3,056**	**71**	**(20)**	**3,107**	3,447	137	(73)	3,511
Other debt	**5,626**	**12**	**(2)**	**5,636**	1,501	8	(5)	1,504
Equities	**1,293**	**45**	**(8)**	**1,330**	1,272	28	(60)	1,240
	$35,238	**$ 349**	**$ (127)**	**$35,460**	$25,078	$ 604	$ (153)	$25,529

Realized gains and losses on sale of Investment account securities

	2003	2002	2001
Realized gains	**$ 87**	$ 82	$ 103
Realized losses	**(56)**	(193)	(233)
Gain(loss)on sale of Investment account securities	**$ 31**	$ (111)	$ (130)

NOTE 6 Loans (1)

	2003	2002
Canada		
Residential mortgage	**$ 73,978**	$ 67,700
Personal	**28,262**	25,918
Credit card	**4,663**	4,740
Business and government	**26,765**	29,778
	133,668	128,136
United States		
Residential mortgage	**4,094**	4,351
Personal	**5,015**	5,269
Credit card	**107**	125
Business and government	**17,414**	21,412
	26,630	31,157
Other International		
Residential mortgage	**745**	789
Personal	**726**	769
Credit card	**46**	49
Business and government	**10,634**	10,561
	12,151	12,168
Total loans (2)	**172,449**	171,461
Allowance for loan losses	**(2,055)**	(2,203)
Total loans net of allowance for loan losses	**$170,394**	$169,258

(1) Includes all loans booked by location, regardless of currency or residence of borrower.

(2) Loans are net of unearned income of $113 million (2002 — $131 million).

Loan maturities and rate sensitivity

	Maturity term (1)				Rate sensitivity			
As at October 31, 2003	**Under 1 year**	**1 to 5 years**	**Over 5 years**	**Total**	**Floating**	**Fixed rate**	**Non-rate-sensitive**	**Total**
Residential mortgage	**$20,940**	**$52,889**	**$ 4,988**	**$ 78,817**	**$ 7,571**	**$ 71,115**	**$ 131**	**$ 78,817**
Personal	**24,726**	**6,982**	**2,295**	**34,003**	**20,320**	**13,448**	**235**	**34,003**
Credit card	**4,816**	**—**	**—**	**4,816**	**—**	**2,977**	**1,839**	**4,816**
Business and government	**40,273**	**10,674**	**3,866**	**54,813**	**18,552**	**34,882**	**1,379**	**54,813**
Total loans	**$90,755**	**$70,545**	**$11,149**	**172,449**	**$46,443**	**$122,422**	**$ 3,584**	**172,449**
Allowance for loan losses				**(2,055)**				**(2,055)**
Total loans net of allowance for loan losses				**$170,394**				**$170,394**

(1) Based on the earlier of contractual repricing or maturity date.

Impaired loans

	2003			2002
	Gross	**Specific allowance**	**Net**	**Net**

Residential mortgage	**$ 131**	**$ (13)**	**$ 118**	$ 113
Personal	**235**	**(139)**	**96**	129
Business and government (1)	**1,379**	**(605)**	**774**	1,152
	$ 1,745	**$ (757)**	**$ 988**	$ 1,394

(1) Includes specific allowances of nil (2002 — $2 million) related to loan substitute securities.

NOTE 6 Loans (continued)

Allowance for loan losses

	2003							2002
	Balance at beginning of year	Write-offs	Recoveries	Provision for credit losses	Admiralty Bancorp, Inc. at acquisition date	Other	Balance at end of year	Balance at end of year
Residential mortgage	**$ 41**	**$ (10)**	**$ —**	**$ 7**	**$ —**	**$ (1)**	**$ 37**	$ 41
Personal	**465**	**(373)**	**68**	**269**	**—**	**8**	**437**	465
Credit card	**152**	**(192)**	**37**	**155**	**—**	**(1)**	**151**	152
Business and government (1)	**1,405**	**(407)**	**65**	**296**	**8**	**(66)**	**1,301**	1,405
General unallocated allowance	**251**	**—**	**—**	**(6)**	**—**	**(7)**	**238**	251
Total allowance for credit losses	**$ 2,314**	**$ (982)**	**$ 170**	**$ 721**	**$ 8**	**$ (67)**	**$ 2,164**	$ 2,314
Specific allowances	**$ 894**	**$ (982)**	**$ 170**	**$ 721**	**$ —**	**$ (46)**	**$ 757**	$ 894
General allowance								
General allocated	**1,169**	**—**	**—**	**6**	**8**	**(14)**	**1,169**	1,169
General unallocated	**251**	**—**	**—**	**(6)**	**—**	**(7)**	**238**	251
Total general allowance for credit losses	**1,420**	**—**	**—**	**—**	**8**	**(21)**	**1,407**	1,420
Total allowance for credit losses	**$ 2,314**	**$ (982)**	**$ 170**	**$ 721**	**$ 8**	**$ (67)**	**$ 2,164**	$ 2,314
Allowance for off-balance sheet and other items (2)	**(109)**	**—**	**—**	**—**	**—**	**—**	**(109)**	(109)
Allowance for loan substitute securities	**(2)**	**—**	**—**	**2**	**—**	**—**	**—**	(2)
Total allowance for loan losses	**$ 2,203**	**$ (982)**	**$ 170**	**$ 723**	**$ 8**	**$ (67)**	**$ 2,055**	$ 2,203

(1) Includes nil (2002 — $2 million) related to loan substitute securities and $109 million (2002 — $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

The following table summarizes our new securitization activity for 2003, 2002 and 2001:

New Securitization activity

	2003			2002			2001		
	Credit card loans	Residential mortgage loans (1)	Commercial mortgage loans	Credit card loans	Residential mortgage loans (1)	Commercial mortgage loans	Credit card loans	Residential mortgage loans (1)	Commercial mortgage loans
Securitized and sold	**$ 1,000**	**$ 610**	**$ 131**	$ —	$ 1,708	$ —	$ 1,000	$ 723	$ —
Net cash proceeds received	**1,000**	**607**	**135**	—	1,691	—	1,000	720	—
Retained rights to future excess interest	**9**	**24**	**—**	—	71	—	7	25	—
Pre-tax gain on sale	**9**	**21**	**4**	—	54	—	7	22	—

(1) Government guaranteed residential mortgage loans securitized during the year through the creation of mortgage-backed securities and retained were $3,473 million (2002 — $2,026 million; 2001 — $77 million). Retained mortgage-backed securities are classified as Investment account securities.

The key assumptions used to value the retained interests at the date of securitization, for activity in 2003, are as follows:

Key assumptions

	Credit card loans	Residential mortgage loans
Payment rate (1)	**37.69%**	**12.00%**
Excess spread, net of credit losses	**5.74**	**1.17**
Expected credit losses	**1.64**	**—**
Discount rate	**10.00**	**4.11**

(1) Represents monthly payment rate for credit card loans.

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, 2003, was .41%.

The following table summarizes the loan principal, impaired and net write-offs for total loans reported on our Consolidated balance sheet and securitized loans that we manage as at October 31, 2003 and 2002:

Loans reported and securitized

	2003			2002		
	Loan principal	**Impaired (1)**	**Net write-offs**	Loan principal	Impaired (1)	Net write-offs
Residential mortgage	**$ 85,029**	**$ 233**	**$ 10**	$ 78,321	$ 228	$ 12
Personal	**34,003**	**287**	**305**	31,956	371	328
Credit card	**7,491**	**46**	**184**	6,589	41	172
Business and government	**54,813**	**1,401**	**342**	61,751	1,865	779
Total loans managed (2)	**181,336**	**1,967**	**841**	178,617	2,505	1,291
Less: Loans securitized and managed (3)	**8,887**	**—**	**29**	7,156	—	32
Total loans reported on the Consolidated balance sheet	**$ 172,449**	**$ 1,967**	**$ 812**	$ 171,461	$ 2,505	$ 1,259

(1) Includes past due loans greater than 90 days not classified as impaired.

(2) Excludes any assets we have temporarily acquired with the intent at acquisition to sell to special purpose entities.

(3) Loan principal includes credit card loans of $2,675 million (2002 — $1,675 million), mortgage-backed securities created and sold of $2,936 million (2002 — $2,416 million), mortgage backed securities created and retained of $3,276 million (2002 — $3,065 million).

At October 31, 2003, key economic assumptions and the sensitivity of the current fair value of our 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 2003, 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	$ 15.6	$ 95.4
Weighted average remaining service life (in years)	.2	3.3
Payment rate	37.69%	12.00%
Impact on fair value of 10% adverse change	$ (.9)	$ (2.2)
Impact on fair value of 20% adverse change	(1.8)	(4.4)
Excess spread, net of credit losses	5.02%	1.14%
Impact on fair value of 10% adverse change	$ (1.5)	$ (9.5)
Impact on fair value of 20% adverse change	(3.0)	(19.1)
Expected credit losses	1.64%	—
Impact on fair value of 10% adverse change	$ (.4)	—
Impact on fair value of 20% adverse change	(.9)	—
Discount rate	10.00%	3.79%
Impact on fair value of 10% adverse change	$ —	$ (.4)
Impact on fair value of 20% adverse change	—	(.8)

(1) All rates are annualized except for the credit card loans payment rate, which is monthly.

Cash flows from securitizations (1)

	2003	2002	2001

	Credit card loans	Residential mortgage loans	Credit card loans	Residential mortgage loans	Credit card loans	Residential mortgage loans
Proceeds reinvested in revolving securitizations	**$ 7,843**	**$ 1,268**	$ 8,512	$ 303	$ 6,972	$ 13
Cash flows from retained interests in securitizations	**64**	**13**	64	15	60	10

(1) Not applicable to commercial mortgages.

NOTE 8 Premises and equipment

	2003			2002
	Cost	Accumulated depreciation	Net book value	Net book value
Land	**$ 154**	**$ —**	**$ 154**	$ 172
Buildings	**625**	**294**	**331**	319
Computer equipment	**1,860**	**1,309**	**551**	456
Furniture, fixtures and other equipment	**948**	**668**	**280**	326
Leasehold improvements	**889**	**535**	**354**	380
	$ 4,476	**$ 2,806**	**$ 1,670**	$ 1,653

The depreciation expense for premises and equipment amounted to $398 million and $407 million in 2003 and 2002, respectively.

NOTE 9 Other assets

	2003	2002
Receivable from brokers, dealers and clients	**$ 2,568**	$ 3,229
Accrued interest receivable	**1,460**	1,319
Investment in associated corporations	**1,343**	92
Insurance-related assets (1)	**1,024**	936
Net deferred income tax asset	**724**	999
Prepaid pension benefit cost (2)	**693**	429
Other	**5,202**	4,109
	$13,014	$11,113

(1) Insurance-related assets include 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 pension benefit expense.

NOTE 10 Deposits

	2003				2002
	Demand (1)	Notice (2)	Term (3)	Total	Total
Personal	**$11,368**	**$31,812**	**$ 63,529**	**$106,709**	$101,892
Business and government	**40,536**	**8,906**	**80,418**	**129,860**	119,591
Bank	**1,819**	**63**	**20,694**	**22,576**	22,003
	$53,723	**$40,781**	**$164,641**	**$259,145**	$243,486
Non-interest-bearing					
Canada				**$ 24,029**	$ 21,843
United States				**2,076**	2,078
Other International				**1,107**	891
Interest-bearing					
Canada				**129,197**	119,737
United States				**36,285**	35,320
Other International				**66,451**	63,617
				$259,145	$243,486

(1) Deposits payable on demand include all deposits for which we do not have the right to notice of withdrawal. These deposits are primarily 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, 2003, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $11.9 billion (2002 — $11.3 billion) and other notes and similar instruments in bearer form we have issued of $27.3 billion (2002 — $21.7 billion).

NOTE 11 Other liabilities

	2003	2002
Short-term borrowings of subsidiaries	**$ 7,814**	$10,173
Payable to brokers, dealers and clients	**3,241**	3,630
Accrued interest payable	**1,640**	1,399
Accrued pension and other postretirement benefit expense (1)	**702**	574
Insurance-related liabilities	**386**	599
Dividends payable	**313**	289
Other	**7,222**	6,708
	$21,318	$23,372

(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	2003	2002
September 3, 2008	(1)	5.45%		**$ —**	$ 100
March 15, 2009		6.50%	US$125	**165**	195
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	**396**	467
November 8, 2011	November 8, 2006 (8)	(9)	US$400	**526**	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	**396**	467
				$6,243	$6,614

(1) Redeemed on September 3, 2003, 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 basis points 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 basis points above the 30-day Bankers' Acceptance rate.

(15) Interest at a rate of 25 basis points 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.

Maturity schedule

The aggregate maturities of subordinated debentures, based on the maturity dates under the terms of issue, are as follows:

2004 - 2008	$ —
2009 - 2013	4,387
Thereafter	1,856
	$ 6,243

NOTE 13 Non-controlling interest in subsidiaries

	2003	2002
Trust Capital Securities issued by RBC Capital Trust (1)	**$ 1,434**	$ 1,434
Trust Capital Securities issued by RBC Capital Trust II (1)	**914**	—
Other	**40**	35
	$ 2,388	$ 1,469

(1) Including accrued distribution amounts.

NOTE 13 Non-controlling interest in subsidiaries (continued)

We issue RBC Trust Capital Securities (RBC TruCS) through our consolidated subsidiaries RBC Capital Trust, a closed-end trust; and RBC Capital Trust II, an open-end trust (the Trusts), established under the laws of the Province of Ontario. The proceeds of the RBC TruCS are used to fund the Trusts' acquisition of trust assets. Upon consolidation, these RBC TruCS are reported as Non-controlling interest in subsidiaries.

Holders of RBC TruCS are eligible to receive semi-annual non-cumulative fixed cash distributions. Should the Trusts fail to pay the semi-annual distributions in full, we will not declare dividends of any kind on any of our preferred or common shares.

The terms of the RBC TruCS outstanding at October 31, 2003, were as follows:

Issuer	Issuance date	Distribution date	Annual yield	Redemption date At the option of the Trust	Conversion date At the option of the holder(3)	Principal amount
RBC Capital Trust (1), (4)						
650,000 Trust Capital Securities — Series 2010	July 24, 2000	June 30, December 31	7.288%	December 31, 2005	December 31, 2010	**$ 650**
750,000 Trust Capital Securities — Series 2011	December 6, 2000	June 30, December 31	7.183%	December 31, 2005	December 31, 2011	**750**
RBC Capital Trust II (2), (4)						
900,000 Trust Capital Securities — Series 2013	July 23, 2003	June 30, December 31	5.812%	December 31, 2008	Any time	**900**
Total included in Non-controlling interest in subsidiaries						**$2,300**

(1) Subject to the approval of the Superintendent of Financial Institutions Canada (OSFI), the Trust may, in whole (but not in part), on the Redemption date specified above, and on any Distribution date thereafter, redeem the RBC TruCS Series 2010 and Series 2011, without the consent of the holders.

(2) Subject to the approval of OSFI, the Trust may, in whole or in part, on the Redemption date specified above, and on any Distribution date thereafter, redeem any outstanding RBC TruCS Series 2013, without the consent of the holders.

(3) Holders of RBC TruCS Series 2010 and Series 2011 may exchange, on any Distribution date on or after the conversion date specified above, RBC TruCS Series 2010 and Series 2011 for 40 non-cumulative redeemable First Preferred Shares, Series Q and Series R, respectively. Holders of RBC TruCS Series 2013 may, at any time, exchange all or part of their RBC TruCS — Series 2013 for 40 non-cumulative redeemable First Preferred Shares Series U per RBC TruCS — Series 2013.

(4) The RBC TruCS may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs earlier than six months prior to the conversion date at the holder's option or (ii) the Redemption Price if the redemption occurs on or after the date that is six months prior to the conversion date at the holder's option, as indicated above. Redemption Price refers to an amount equal to $1,000 plus the unpaid distributions to the Redemption date. Early Redemption Price refers to an amount equal to the greater of (i) the Redemption Price and (ii) the price calculated to provide an annual yield, equal to the yield on a Government of Canada bond issued on the Redemption date with a maturity date of June 30, 2010 and 2011, plus 33 basis points and 40 basis points, for Series 2010 and Series 2011, respectively, and a maturity date of December 31, 2013, plus 23 basis points, for Series 2013.

NOTE 14 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

	2003			2002			2001		
	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
Non-cumulative Series H(1)	**—**	**—**	**—**	—	—	—	—	—	1.69
US$ Non-cumulative Series I(1)	**—**	**—**	**—**	—	—	US .02	8,000	318	US 1.91
Non-cumulative Series J(1)	**—**	**—**	**.90**	12,000	300	1.78	12,000	300	1.78
US$ Non-cumulative Series K(1)	**—**	**—**	**US .80**	10,000	389	US 1.58	10,000	397	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**	**132**	**US 1.44**	4,000	156	US 1.44	4,000	159	US 1.44
Non-cumulative Series S	**10,000**	**250**	**1.53**	10,000	250	1.53	10,000	250	.65
		$ 832			$1,545			$2,024	
Common									
Balance at beginning of year	**665,257**	**$6,979**		674,021	$6,940		602,398	$3,076	
Issued	**—**	**—**		—	—		12,305	576	
Issued under the stock option plan(2)	**5,303**	**193**		5,211	176		2,819	81	
Issued on the acquisition of Centura Banks, Inc.	**—**	**—**		—	—		67,413	3,317	
Issued on the acquisition of Richardson Greenshields Limited (3)	**—**	**—**		318	15		13	2	
Purchased for cancellation	**(14,539)**	**(154)**		(14,293)	(152)		(10,927)	(112)	
Balance at end of year	**656,021**	**$7,018**	**$ 1.72**	665,257	$6,979	$ 1.52	674,021	$6,940	$ 1.38

(1) On May 26, 2003, we redeemed First Preferred Shares Series J and K. 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 (SARs) awards, resulting in a reversal of the accrued liability, net of related income taxes, of $4 million (2002 — $9 million); and from renounced tandem SARs, net of related income taxes, of $6 million.

(3) During 2002, we exchanged nil (2001 — 36,527) Class B shares and 1,846,897 (2001 — 77,956) 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) common shares.

Terms of preferred shares

	Dividend per share (1)	Redemption date (2)	Redemption price (3)	Conversion dates: At the option of the bank (2), (4)	Conversion dates: At the option of the holder (5)
First Preferred					
Non-cumulative Series N	$.293750	August 24, 2003	$26.00	August 24, 2003	August 24, 2008
Non-cumulative Series O	.343750	August 24, 2004	26.00	August 24, 2004	Not convertible
US$ Non-cumulative Series P	US.359375	August 24, 2004	US 26.00	August 24, 2004	Not convertible
Non-cumulative Series S	.381250	August 24, 2006	26.00	August 24, 2006	Not convertible

(1) Non-cumulative preferential dividends on Series 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 (OSFI) and the requirements of the *Bank Act* (Canada) (the act), we may, on or after the dates specified above, redeem First Preferred Shares. These may be redeemed for cash, 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 $.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 $.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 $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2010.

(3) Subject to the consent of OSFI and the requirements of the act, we may purchase First Preferred Shares for cancellation at a purchase price, 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 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 or RBC Capital Trust II fail to pay any required distribution on the capital trust securities in full, 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.

Normal course issuer bid

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 through the facilities of the Toronto and Montreal stock exchanges, representing approximately 3% of our outstanding common shares. 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. Under this renewed bid, 9,818,900 common shares were purchased, at an average cost of $52.27 per share, for $513 million and 8,629,337 common shares were repurchased during fiscal 2003 at an average cost of $58.09 per share, for $502 million.

On June 24, 2003, we renewed our normal course issuer bid to purchase, for cancellation, up to 25 million of our common shares, representing approximately 3.8% of our outstanding common shares. Under this renewed bid, 5,910,200 common shares were purchased, at an

average cost of $59.30 per share for $350 million. During fiscal 2003, a total of 14,539,537 common shares were repurchased for $852 million at an average cost of $58.58 per share.

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, 2003, our Tier 1 and Total capital ratios were 9.7% and 12.8%, respectively (2002 — 9.3% and 12.7%, 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, 2003, our assets-to-capital multiple was 18.2 times (2002 — 17.3 times).

NOTE 15 Income taxes

	2003	2002	2001
Income taxes in Consolidated statement of income			
Current			
Canada — Federal	**$ 741**	$ 703	$ 845
Provincial	**326**	272	360
International	**279**	155	103
	1,346	1,130	1,308
Deferred			
Canada — Federal	**75**	167	16
Provincial	**29**	57	1
International	**10**	11	15
	114	235	32
	1,460	1,365	1,340
Income taxes (recoveries) in Consolidated statement of changes in shareholders' equity			
Unrealized foreign currency translation gains and losses, net of hedging activities	**1,064**	100	(472)
Issuance costs	**(3)**	—	(15)
Stock appreciation rights	**4**	25	—
Cumulative effect of initial adoption of *Employee Future Benefits* accounting standard	**—**	—	(157)
	1,065	125	(644)
Total income taxes	**$ 2,525**	$ 1,490	$ 696

Deferred income taxes

	2003	2002
Deferred income tax asset (1)		
Allowance for credit losses	**$ 505**	$ 512
Deferred compensation	**348**	339
Pension related	**12**	43
Tax loss carryforwards	**35**	35
Deferred income	**166**	60
Other	**299**	259
	1,365	1,248
Valuation allowance	**(16)**	(13)
	1,349	1,235
Deferred income tax liability		
Premises and equipment	**(14)**	(9)
Deferred expense	**(178)**	(77)
Other	**(433)**	(150)
	(625)	(236)
Net deferred income tax asset	**$ 724**	$ 999

(1) We have determined that it is more likely than not that the deferred income tax asset net of the valuation allowance will be realized through a combination of future reversals of temporary differences and taxable income.

Reconciliation to statutory tax rate

	2003	2002	2001

Income taxes at Canadian statutory tax rate	**$ 1,672**	**36.4%**	$ 1,630	38.5%	$ 1,601	41.5%
Increase (decrease) in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	**(204)**	**(4.4)**	(276)	(6.5)	(253)	(6.5)
Tax-exempt income from securities	**(19)**	**(.4)**	(7)	(.2)	(7)	(.2)
Tax rate change	**31**	**.7**	33	.8	63	1.6
Other	**(20)**	**(.5)**	(15)	(.4)	(64)	(1.7)
Income taxes reported in Consolidated statement of income/effective tax rate	**$ 1,460**	**31.8%**	$ 1,365	32.2%	$ 1,340	34.7%

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 $728 million as at October 31, 2003 (2002 — $841 million; 2001 — $772 million).

NOTE 16 Insurance operations

Insurance claims and policy benefit liabilities

	2003	2002
Claims liabilities	**$ 374**	$ 149
Future policy benefit liabilities	**4,882**	2,676
Insurance claims and policy benefit liabilities	**$ 5,256**	$ 2,825

The effects of changes in Insurance claims and policy benefit liabilities are included in the Consolidated statement of income within Insurance policyholder benefits, claims and acquisition expense in the period in which the estimates are changed. For non-life short-duration contract liabilities carried at present value, the interest rates used for discounting range from 3% to 10%.

Reinsurance

In the ordinary course of business, our insurance operations reinsure risks to other insurance and reinsurance companies in order to provide greater diversification, limit loss exposure to large risks, and provide additional capacity for future growth. These ceding reinsurance arrangements do not relieve our insurance subsidiaries from their direct obligation to the insureds. We evaluate the financial condition of the reinsurers and monitor our concentrations of credit risks to minimize our exposure to losses from reinsurer insolvency.

Reinsurance amounts included in Non-interest income for the years ended October 31 are shown in the table below:

Net premiums

	2003	2002	2001
Gross premiums	**$ 2,979**	$ 2,297	$ 2,026
Ceded premiums	**(1,014)**	(530)	(478)
Net premiums	**$ 1,965**	$ 1,767	$ 1,548

Reinsurance recoverables

	2003	2002
Claims paid	**$ 230**	$ 302
Future policy benefits	**489**	395
Reinsurance recoverables	**$ 719**	$ 697

NOTE 17 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)	
	2003	2002	2003	2002
Change in fair value of plan assets (3), (4)				
Opening fair value of plan assets	**$ 3,747**	$ 4,049	**$ —**	$ 1
Actual return on plan assets	**415**	(133)	**—**	—
Company contributions	**670**	99	**27**	23
Plan participant contributions	**23**	19	**1**	1
Benefits paid	**(263)**	(258)	**(28)**	(25)
Plan settlements	**—**	(52)	**—**	—
Business acquisitions	**97**	—	**—**	—
Change in foreign currency exchange rate	**(32)**	17	**—**	—
Transfers from other plans	**—**	6	**—**	—
Closing fair value of plan assets	**$ 4,657**	$ 3,747	**$ —**	$ —
Change in benefit obligation (3)				
Opening benefit obligation	**$ 4,590**	$ 4,044	**$ 1,067**	$ 693
Service cost	**120**	113	**39**	22
Interest cost	**306**	297	**80**	51
Plan participant contributions	**23**	19	**1**	1
Actuarial loss	**443**	280	**214**	318
Benefits paid	**(263)**	(258)	**(28)**	(25)
Transfers from other plans	**—**	3	**—**	—
Plan amendments and curtailments	**—**	59	**1**	7
Business acquisitions	**123**	2	**18**	—
Change in foreign currency exchange rate	**(60)**	31	**(13)**	—
Closing benefit obligation	**$ 5,282**	$ 4,590	**$ 1,379**	$ 1,067
Funded status				
(Deficit) excess of plan assets over benefit obligation	**$ (625)**	$ (843)	**$ (1,379)**	$ (1,067)
Unrecognized net actuarial loss	**1,071**	792	**549**	360
Unrecognized transition (asset) obligation	**(19)**	(26)	**174**	190
Unrecognized prior service cost	**181**	211	**13**	13
Contributions between the measurement date and October 31	**25**	222	**2**	3
Other	**(1)**	(1)	**—**	1
Net amount recognized as at October 31	**$ 632**	$ 355	**$ (641)**	$ (500)
Weighted average assumptions				
Discount rate	**6.25%**	6.75%	**6.50%**	7.00%
Assumed long-term rate of return on plan assets	**7.00%**	7.00%	**—**	—
Rate of increase in future compensation	**4.40%**	4.40%	**4.40%**	4.40%

Pension benefit expense (5)

	2003	2002	2001
Service cost	**$ 120**	$ 113	$ 104
Interest cost	**306**	297	268
Expected return on plan assets	**(300)**	(300)	(306)
Amortization of transition asset	**(2)**	(2)	(2)
Amortization of prior service cost	**31**	32	17
Amortization of net actuarial loss (gain)	**15**	(27)	(45)
Settlement loss	**—**	52	—

Other	**—**	(45)	(14)
Defined benefit pension expense	**170**	120	22
Defined contribution pension expense	**67**	61	30
Pension benefit expense	**$ 237**	$ 181	$ 52

Other postretirement benefit expense (2)

	2003	2002	2001
Service cost	**$ 39**	$ 22	$ 64
Interest cost	**80**	51	49
Expected return on plan assets	**—**	—	(1)
Amortization of transition obligation	**17**	17	17
Amortization of net actuarial loss	**24**	—	—
Amortization of prior service cost	**1**	2	2
Other postretirement benefit expense	**$ 161**	$ 92	$ 131

2003 sensitivity of key assumptions

Pensions	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	**$ 179**	**$ 21**
Impact of .25% change in rate of increase in future compensation assumption	**22**	**5**
Impact of .25% change in the long-term rate of return on plan assets assumption	**—**	**11**

Postretirement	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 65	$ 8
Impact of .25% change in rate of increase in future compensation assumption	8	2

(1) Included in these amounts are $4,328 million (2002 — $3,239 million) of plan assets and $4,991 million (2002 — $4,131 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 4.5% for dental, decreasing to an ultimate rate of 4.5% 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 $21 million and $182 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 $14 million and $143 million, respectively.

(3) For the 12-month period beginning October 1 to the measurement date September 30.

(4) Plan assets includes 525,342 (2002 — 818,597) of Royal Bank of Canada common shares having a fair value of $31 million (2002 — $43 million). In addition, dividends amounting to $1.1 million (2002 — $1 million) were received on Royal Bank of Canada common shares held in the plan assets during the year.

(5) Discount rate assumption of 6.75% (2002 — 7.00%; 2001 — 7.00%) was used to determine pension benefit expense.

NOTE 18 Stock-based compensation

Stock option plans

We have two stock option plans — one for certain key employees and one for non-employee directors. On November 19, 2002, the Board of Directors permanently discontinued all further grants of options under the Director Stock Option Plan. Under the employee 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 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. During the last quarter of 2002 and first quarter of 2003, certain executive participants voluntarily renounced their SARs while retaining the corresponding options.

The compensation expense for these grants, which is amortized over the associated option's vesting period, was $34 million for the year ended October 31, 2003 (2002 — $44 million; 2001 — $23 million).

Stock options

	2003		2002		2001	
	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	**28,479**	**$ 39.54**	30,158	$ 36.84	25,880	$ 33.61
Granted	**1,985**	**58.03**	4,215	49.12	7,949	44.46
Exercised — Common shares	**(5,303)**	**34.48**	(5,211)	32.07	(2,819)	28.77
— SARs	**(170)**	**37.35**	(291)	34.01	(259)	33.55
Cancelled	**(188)**	**47.55**	(392)	38.37	(593)	37.82
Outstanding at end of year	**24,803**	**$ 42.06**	28,479	$ 39.54	30,158	$ 36.84
Exercisable at end of year	**15,415**	**$ 38.24**	14,050	$ 36.07	12,895	$ 32.62
Available for grant	**14,309**		16,105		20,289	

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 - $15.68	**349**	**$ 15.56**	**2.9**	**349**	**$ 15.56**
$24.80 - $28.25	**1,673**	**26.13**	**6.0**	**1,673**	**26.13**
$30.00 - $39.64	**11,450**	**36.66**	**6.1**	**9,866**	**37.20**
$43.59 - $49.36	**9,354**	**49.14**	**8.4**	**3,513**	**49.11**
$50.00 - $59.35	**1,977**	**57.92**	**10.0**	**14**	**50.71**
Total	**24,803**	**$ 42.06**	**7.3**	**15,415**	**$ 38.24**

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 adopted the recommendations of CICA 3870 prospectively for new awards granted after November 1, 2002. The fair value compensation expense recorded for the year ended October 31, 2003, in respect of these awards was $6 million.

We have provided pro forma disclosures, which demonstrate the effect as if we had adopted the recommended recognition provisions of CICA 3870 in 2003, 2002 and 2001 for awards granted before 2003 as indicated below:

Pro forma net income and earnings per share

	As reported			Pro forma (1)		
	2003	2002	2001	2003	2002	2001
Net income	**$ 3,005**	$ 2,762	$ 2,411	**2,970**	$ 2,730	$ 2,375
Earnings per share	**4.44**	3.96	3.55	**4.39**	3.91	3.49
Diluted earnings per share	**4.39**	3.93	3.52	**4.35**	3.89	3.47

(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.

The fair value of options granted during 2003 was estimated on the date of grant using an option pricing model with the following assumptions:

(i) risk-free interest rate of 4.61% (2002 — 4.89%; 2001 — 5.86%),

(ii) expected option life of 6 years (2002 — 6 years; 2001 — 10 years),

(iii) expected volatility of 20% (2002 — 20%; 2001 — 24%) and

(iv) expected dividends of 2.95% (2002 — 2.9%; 2001 — 2.67%).

The fair value of each option granted was $11.60 (2002 — $10.02; 2001 — $14.78).

NOTE 18 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 $55 million (2002 — $49 million; 2001 — $47 million), under the terms of these plans, towards the purchase of common shares. As at October 31, 2003, an aggregate of 17,544,654 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, 2003, was $105 million (2002 — $73 million; 2001 — $52 million). The share appreciation and dividend-related compensation expense recorded for the year ended October 31, 2003, in respect of these plans, was $16 million (2002 — $16 million; 2001 — $8 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 three 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, 2003, was $215 million (2002 — $187 million; 2001 — $128 million). The share appreciation and dividend-related compensation expense for the year ended October 31, 2003, in respect of this plan, was $22 million (2002 — $20 million; 2001 — $5 million recovery).

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, 2003, was $58 million (2002 — $34 million; 2001 — $14 million). The value of the various share units as at October 31, 2003, was $26 million (2002 — $10 million; 2001 — $4 million). The stock-based compensation expense recorded for the year ended October 31, 2003, in respect of these plans, was $30 million (2002 — $32 million; 2001 — $16 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 three 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. The value of common shares held as at October 31, 2003, was $102 million (2002 — $34 million; 2001 — nil). Compensation expense of $33 million (2002 — $11 million; 2001 — nil) was recognized for the year ended October 31, 2003, in respect of this award.

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, 2003, was $9 million (2002 — $16 million; 2001 — $21 million). The compensation expense recorded for the year ended October 31, 2003, in respect of this plan, was $5 million (2002 — $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 value of the RBC share units held under the plan as at October 31, 2003, was $111 million (2002 — $70 million; 2001 — $7 million). The compensation expense recorded for the year ended October 31, 2003, in respect of the matching contributions, was $10 million (2002 — $12 million; 2001 — $7 million).

On the acquisition of Dain Rauscher, certain key employees of Dain Rauscher were offered retention unit 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 liability under this plan was $100 million as at October 31, 2003 (2002 — $151 million; 2001 — $135 million). The compensation expense recorded for the year ended October 31, 2003, in respect of this plan was $95 million (2002 — $92 million; 2001 — $143 million).

For other stock-based plans, compensation expense of $8 million was recognized for the year ended October 31, 2003 (2002 — $19 million; 2001 — $14 million). The value of the share units and shares held under these plans as at October 31, 2003, was $13 million (2002 — $10 million; 2001 — $3 million).

NOTE 19 Earnings per share

	2003	2002	2001
Earnings per share			
Net income	**$ 3,005**	$ 2,762	$ 2,411
Preferred share dividends	**(68)**	(98)	(135)
Net income available to common shareholders	**$ 2,937**	$ 2,664	$ 2,276
Average number of common shares (in thousands)	**662,080**	672,571	641,516
	$ 4.44	$ 3.96	$ 3.55
Diluted earnings per share			
Net income available to common shareholders	**$ 2,937**	$ 2,664	$ 2,276
Effect of assumed conversions (1)	**—**	—	1
Net income adjusted for diluted computation	**$ 2,937**	$ 2,664	$ 2,277
Average number of common shares (in thousands)	**662,080**	672,571	641,516
Convertible Class B and C shares (1)	**—**	14	363
Stock options (2)	**6,936**	5,535	5,337
Average number of diluted common shares (in thousands)	**669,016**	678,120	647,216
	$ 4.39	$ 3.93	$ 3.52

(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 (2002 — nil; 2001 — 36,527) Class B shares and nil (2002 - 1,846,897; 2001 — 77,956) Class C shares for nil (2002 — 318,154; 2001 - 13,621) 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 25,205 with an exercise price of $59.35 (2002 — 9,761 at $53.76; 2001 — 7,862 at $50.72; 1,956 at $49.03) as the options' exercise price was greater than the average market price of our common shares.

NOTE 20 Guarantees, commitments and contingencies

Guarantees

In the normal course of business, we enter into numerous agreements that may contain features which meet the definition of a guarantee pursuant to Accounting Guideline 14, *Disclosure of Guarantees* (AcG 14). AcG 14 defines a guarantee to be a contract (including an indemnity) that contingently requires us to make payments (either in cash, financial instruments, other assets, shares of our stock or provision of services) to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of another third party to pay its indebtedness when due. The maximum potential amount of future payments represents the maximum risk of loss if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

The table below summarizes significant guarantees we have provided to third parties.

Maximum potential amount of future payments

	2003
Backstop liquidity facilities	**$22,162**
Credit derivatives/written put options (1)	**15,470**
Financial standby letters of credit/performance guarantees	**12,482**
Credit enhancements	**6,791**
Stable value products (1)	**3,251**
Mortgage loans sold with recourse	**520**

(1) The notional amount of the contract approximates maximum potential amount of future payments.

Backstop liquidity facilities are provided to asset-backed commercial paper conduit programs (programs) administered by us and third parties, as an alternative source of financing in the event that such programs are unable to access commercial paper markets, or in limited circumstances, when predetermined performance measures of the financial assets owned by these programs are not met. The liquidity facilities' term can range up to 1 year. The terms of the backstop liquidity facilities do not require us to advance money to these programs in the event of bankruptcy or to purchase non-performing or defaulted assets. None of the backstop liquidity facilities that we have provided have been drawn upon.

Our clients may enter into credit derivatives or written put options for speculative or hedging purposes. AcG 14 defines guarantees to include derivative contracts that contingently require us to make payments to a guaranteed party based on changes in an underlying that relate to an asset, liability or equity security of a guaranteed party. We have only disclosed amounts for transactions where it would be probable, based on the information available to us, that the client would use the credit derivative or written put option to protect against changes in an underlying that is related to an asset, a liability or an equity security held by the client. We enter into written credit derivatives that are over-the-counter contractual agreements to compensate another party, a corporate or government entity, for their financial loss following the occurrence of a credit event in relation to a specified reference obligation, such as a bond or loan. The term of these credit derivatives varies based on the contract and can range up to 15 years. We enter into written put options that are contractual agreements under which we grant the purchaser, a corporate or government entity, the right, but not the obligation to sell, by or at a set date, a specified amount of a financial instrument at a predetermined price. Written put options that typically qualify as guarantees include foreign exchange contracts, equity based contracts, and certain commodity based contracts. The term of these options varies based on the contract and can range up to 5 years.

Financial standby letters of credit and performance guarantees represent irrevocable assurances that we will make payments in the event that a client cannot meet its obligations to third parties. The term of these guarantees can range up to 8 years. 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.

We provide partial credit enhancement to multi-seller programs administered by us to protect commercial paper investors in the event that the third-party credit enhancement supporting the various 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. The term of these credit facilities is between 1 and 4 years.

We sell stable value products that offer book value protection primarily to plan sponsors of ERISA-governed pension plans such as 401(k) plans, 457 plans, etc. The book value protection is provided on portfolios of intermediate/short-term investment grade fixed income securities and is intended to cover any shortfall in the event that plan participants withdraw funds when market value is below book value. We retain the option to exit the contract at any time.

NOTE 20 Guarantees, commitments and contingencies (continued)

Through our various agreements with investors, we may be required to repurchase U.S. originated mortgage loans sold to an investor if the loans are uninsured for greater than one year, or refund any premium received where mortgage loans are prepaid or in default within 120 days. The mortgage loans are fully collateralized by residential properties.

In the normal course of our operations, we provide indemnifications which are often standard contractual terms to counterparties in transactions such as purchase and sale contracts, service agreements, director/officer contracts and leasing transactions. These indemnification agreements may require us to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract. The nature of the indemnification agreements prevents us from making a reasonable estimate of the maximum potential amount we could be required to pay to counterparties. Historically, we have not made any significant payments under such indemnifications.

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.

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

	2003	2002
Documentary and commercial letters of credit	**$ 2,014**	$ 772
Securities lending	**17,520**	23,967
Commitments to extend credit		
Original term to maturity of 1 year or less	**40,432**	40,931
Original term to maturity of more than 1 year	**28,182**	34,115
Uncommitted amounts	**59,801**	45,978
Note issuance/revolving underwriting facilities	**24**	23
	$147,973	$145,786

Lease commitments

Minimum future rental commitments for premises and equipment under long-term non-cancellable operating and capital leases for the next five years and thereafter are shown below.

Lease commitments

2004	$ 388
2005	355
2006	310
2007	260
2008	224
Thereafter	681
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 total return swap. At present, both the New York and the London actions are proceeding.

In October 2003, we received a settlement valued at approximately US$195 million plus interest, which was in accordance with the terms of a settlement agreement reached with Enron Corporation, the Enron Creditors' Committee and Rabobank. The settlement received has reduced the amount owing by Rabobank to US$322 million plus interest but will not otherwise affect the ongoing litigation with Rabobank. Management expects to recover the amount owing from Rabobank 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. Management considers that the aggregate liability resulting from these proceedings will not be material.

Pledged assets

Details of assets pledged against liabilities, including amounts that cannot be sold or repledged by the secured party, are shown in the following table:

Pledged assets

	2003	2002
Assets pledged to:		
Foreign governments and central banks	**$ 1,220**	$ 1,418
Clearing systems, payment systems and depositories	**1,055**	1,075
Assets pledged in relation to:		
Derivative transactions	**2,415**	1,828
Securities borrowing and lending	**29,489**	20,840
Obligations related to securities sold under repurchase agreements	**23,735**	21,109
Other	**2,575**	3,389
Total	**$60,489**	$49,659

Collateral

At October 31, 2003, the approximate market value of collateral accepted that may be sold or repledged by us was $63.1 billion (2002 — $55.9 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions.

Of this amount, $40.4 billion (2002 — $36.4 billion) has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

NOTE 21 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

Interest rate derivatives

Interest rate futures and forwards (forward rate agreements) are contractual obligations to buy or sell an interest-rate sensitive financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that are transacted between counter-parties in the over-the-counter market, whereas futures are standardized with respect to amount and settlement dates, and are traded on regulated exchanges.

Interest rate swaps are over-the-counter contracts in which two counterparties exchange interest payments based on rates applied to a notional amount.

Interest rate 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 an interest-rate sensitive financial instrument at a predetermined price or to receive the cash settlement value of such right. The seller receives the premium from the purchaser for this right.

Foreign exchange derivatives

Foreign exchange forwards are contractual obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement at a predetermined future date. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized with respect to amount and settlement dates, and are traded on regulated exchanges.

Cross currency swaps involve the exchange of fixed payments in one currency for the receipt of fixed payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Foreign currency 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 quantity of one foreign currency in exchange for another at a predetermined price or to receive the cash settlement value of such right. The seller receives the premium from the purchaser for this right.

Credit derivatives

Credit derivatives are over-the-counter contracts that transfer credit risk related to an underlying financial instrument (referenced asset) from one counterparty to another. Examples of credit derivatives include credit default swaps, credit default baskets and total return swaps.

Credit default swaps provide protection against the decline in value of the referenced asset as a result of credit events such as default or bankruptcy. It is similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap in return for payment related to the deterioration in the value of the referenced asset. Credit default baskets are similar to credit default swaps except that the underlying referenced financial instrument is a group of assets instead of a single asset.

Total return swaps are contracts where one counterparty agrees to pay or receive from the other cash flows based on changes in the value of the referenced asset.

Equity derivatives

Equity index futures and forwards are contractual obligations to buy or sell a fixed value (the contracted price) of an equity index, a basket of stocks or a single stock at a specified future date. Forward contracts are effectively tailor-made agreements that are transacted between counter-parties in the over-the-counter market, whereas futures are standardized with respect to amount and settlement dates, and are traded on regulated exchanges.

Equity swaps are over-the-counter contracts in which one counter-party agrees to pay or receive from the other cash flows based on changes in the value of an equity index, a basket of stocks or a single stock.

Equity 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 quantity of an underlying equity index, a basket of stocks or a single stock at a predetermined price or to receive the cash settlement value of such right. The seller receives the premium from the purchaser for this right.

Other derivative products

We also transact in other derivative products including precious metal and commodity derivative contracts in both the over-the-counter and exchange markets.

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. We manage our exposure to foreign currency risk with cross currency swaps and foreign exchange forward contracts. We use credit derivatives to manage our credit exposures and for risk diversification in our lending portfolio.

Certain derivatives are specifically designated and qualify for hedge accounting. The purpose of hedge accounting is to minimize significant unplanned fluctuations in earnings and cash flows caused by changes in interest rates or exchange rates. Interest rate and currency fluctuations will either cause assets and liabilities to appreciate or depreciate in market value or cause variability in cash flows. When a derivative functions effectively as a hedge, gains, losses, revenues and expenses on the derivative will offset the gains, losses, revenues and expenses on the hedged item.

NOTE 21 Derivative financial instruments (continued)

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, changes in fair value are reflected in Non-interest income.

We did not hedge any anticipated transactions for the year ended October 31, 2003.

Adoption of AcG13

We early adopted Accounting Guideline 13, *Hedging Relationships* (AcG 13), on November 1, 2002. Non-trading derivatives that did not qualify for hedge accounting under AcG 13 on November 1, 2002, were carried at fair value on the balance sheet. This resulted in assets and liabilities increasing by $428 million and $395 million, respectively. The resulting transition gain of $33 million was deferred and is being recognized in Net interest income as the original hedged items affect net income.

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				2003		2002	
	Within 1 year	1 to 5 years	Over 5 years (2)	Total	Trading	Other than trading	Trading	Other than trading
Over-the-counter contracts								
Interest rate contracts								
Forward rate agreements	**$ 71,434**	**$ 3,381**	**$ —**	**$ 74,815**	**$ 71,845**	**$ 2,970**	$ 194,537	$ 4,308
Swaps	**263,446**	**477,903**	**213,426**	**954,775**	**855,482**	**99,293**	794,961	67,303
Options purchased	**20,346**	**12,567**	**10,675**	**43,588**	**43,585**	**3**	55,289	4
Options written	**22,404**	**13,180**	**11,425**	**47,009**	**47,009**	**—**	56,080	94
Foreign exchange contracts								
Forward contracts	**452,447**	**23,701**	**2,440**	**478,588**	**463,561**	**15,027**	522,035	22,684
Cross currency swaps	**1,266**	**4,250**	**5,289**	**10,805**	**10,805**	**—**	9,907	—
Cross currency interest rate swaps	**17,704**	**45,165**	**33,183**	**96,052**	**91,990**	**4,062**	71,050	3,098
Options purchased	**72,446**	**2,139**	**13**	**74,598**	**74,391**	**207**	56,160	44
Options written	**76,487**	**2,896**	**—**	**79,383**	**79,383**	**—**	61,209	627
Credit derivatives (3)	**2,452**	**39,111**	**13,224**	**54,787**	**53,693**	**1,094**	50,928	1,223
Other contracts (4)	**6,818**	**7,209**	**12,906**	**26,933**	**26,489**	**444**	22,085	534
Exchange-traded contracts								
Interest rate contracts								
Futures — long positions	**24,857**	**14,087**	**61**	**39,005**	**39,005**	**—**	26,761	—
Futures — short positions	**28,216**	**5,793**	**175**	**34,184**	**33,878**	**306**	36,500	293
Options purchased	**56,711**	**10,798**	**—**	**67,509**	**67,311**	**198**	640	779
Options written	**28,253**	**2**	**—**	**28,255**	**28,057**	**198**	2,059	311
Foreign exchange contracts								
Futures — long positions	**546**	**—**	**—**	**546**	**546**	**—**	27	—
Futures — short positions	**670**	**—**	**—**	**670**	**670**	**—**	321	—
Other contracts (4)	**22,382**	**3,874**	**—**	**26,256**	**26,256**	**—**	18,811	—
	$1,168,885	**$666,056**	**$302,817**	**$2,137,758**	**$2,013,956**	**$123,802**	$1,979,360	$101,302

(1) As of November 1, 2002, certain warrants and loan commitments disclosed as derivatives are recorded at fair value. The notional amount of $1,096 million is excluded from these amounts.

(2) Includes contracts maturing in over 10 years with a notional value of $48,935 million (2002 — $37,322 million). The related gross positive replacement cost is $1,407 million (2002 — $1,291 million).

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

(4) Comprises precious metal, 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 counterparty defaults, we have the right to terminate all transactions covered by the master netting 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 branches are netted, generating a single payment in each currency, due either by us or the counterparty. 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 is a significant credit mitigation technique for managing bank and broker-dealer 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 2003 and 2002, 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, 2003	**AAA, AA**	**A**	**BBB**	**BB or lower**	**Total**	**Banks**	**OECD governments**	**Other**	**Total**
Gross positive replacement cost (4)	$15,591	$15,246	$ 3,587	$ 2,263	$ 36,687	$ 24,867	$ 3,279	$ 8,541	$ 36,687
Impact of master netting agreements	(9,895)	(9,916)	(2,124)	(1,267)	(23,202)	(18,569)	—	(4,633)	(23,202)
Replacement cost (after netting agreements)	$ 5,696	$ 5,330	$ 1,463	$ 996	$ 13,485	$ 6,298	$ 3,279	$ 3,908	$ 13,485
Replacement cost (after netting agreements) - 2002	$ 4,804	$ 3,800	$ 1,279	$ 707	$ 10,590	$ 5,084	$ 2,068	$ 3,438	$ 10,590

(1) As of November 1, 2002, certain warrants and loan commitments disclosed as derivatives are recorded at fair value. The replacement cost of $10 million is excluded from these amounts.

(2) The bank's 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 cost 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 these instruments at October 31, 2003, is $82 million (2002 — $194 million).

Derivative-related credit risk (1)

	2003			2002		
	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	**$ 51**	**$ 68**	**$ 19**	$ 178	$ 299	$ 64
Swaps	**17,138**	**22,682**	**5,258**	19,608	24,357	6,323
Options purchased	**753**	**976**	**346**	563	914	258
	17,942	**23,726**	**5,623**	20,349	25,570	6,645
Foreign exchange contracts						
Forward contracts	**10,201**	**15,148**	**4,137**	6,802	13,049	3,685
Swaps	**5,559**	**11,105**	**2,428**	1,781	6,341	1,445
Options purchased	**1,220**	**2,052**	**527**	809	1,491	439
	16,980	**28,305**	**7,092**	9,392	20,881	5,569
Credit derivatives (5)	**713**	**2,343**	**744**	861	2,963	858
Other contracts (6)	**1,052**	**1,949**	**633**	849	1,701	529
Derivatives before master netting agreements	**36,687**	**56,323**	**14,092**	31,451	51,115	13,601
Impact of master netting agreements	**(23,202)**	**(29,671)**	**(7,772)**	(20,861)	(26,930)	(7,132)
Total derivatives after master netting agreements	**$ 13,485**	**$ 26,652**	**$ 6,320**	$ 10,590	$ 24,185	$ 6,469

(1) As of November 1, 2002, certain warrants and loan commitments disclosed as derivatives are recorded at fair value. The replacement cost of $10 million is excluded from these amounts.

(2) Represents the total current replacement cost 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 these instruments at October 31, 2003, is $82 million (2002 — $194 million).

(3) Consists of (i) the total positive replacement cost of all outstanding contracts, and (ii) an amount for potential future credit exposure as defined by the Superintendent of Financial Institutions Canada (OSFI).

(4) Using guidelines issued by OSFI.

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

(6) Comprises precious metal, commodity and equity-linked derivative contracts.

NOTE 22 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.

	2003								
	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets (1)	**$157,751**	**73%**	**$30,861**	**14%**	**$21,930**	**10%**	**$4,139**	**3%**	**$214,681**
Off-balance sheet credit instruments (2)									
Committed and uncommitted (3)	**$ 59,353**	**46%**	**$41,949**	**33%**	**$22,845**	**18%**	**$4,268**	**3%**	**$128,415**
Other	**18,449**	**50**	**14,791**	**40**	**3,704**	**10**	**156**	**—**	**37,100**
Derivatives before master netting agreement (4), (5), (6)	**$ 7,732**	**21%**	**$10,081**	**27%**	**$17,462**	**48%**	**$1,412**	**4%**	**$ 36,687**
	$ 85,534	**42%**	**$66,821**	**33%**	**$44,011**	**22%**	**$5,836**	**3%**	**$202,202**

[Additional columns below]

[Continued from above table, first column(s) repeated]

	2002								
	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets (1)	$158,055	73%	$32,442	15%	$18,917	9%	$5,979	3%	$215,343
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
Derivatives before master netting agreement (4), (5), (6)	$ 7,734	25%	$ 9,887	31%	$12,232	39%	$1,598	5%	$ 31,451
	$ 91,397	46%	$66,183	33%	$30,330	15%	$2,937	6%	$190,847

(1) Includes assets purchased under reverse repurchase agreements, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 38% (2002 — 38%) and British Columbia at 11% (2002 — 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 of 39% (2002 — 35%), government of 16% (2002 - - 9%), mining and energy of 12% (2002 — 15%), transportation of 6% (2002 — 8%) and manufacturing of 3% (2002 - 8%).

(4) The largest concentration by counterparty type of this credit risk exposure is with banks at 66% (2002 — 68%).

(5) Represents the total current replacement cost 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 these instruments at October 31, 2003, is $82 million (2002 — $194 million).

(6) As of November 1, 2002, certain warrants and loan commitments disclosed as derivatives are recorded at fair value. The replacement cost of $10 million is excluded from these amounts.

NOTE 23 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. Therefore 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

	2003			2002		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Financial assets						
Cash resources	**$ 17,554**	**$ 17,554**	**$ —**	$ 21,323	$ 21,323	$ —
Securities	**117,390**	**117,618**	**228**	93,800	94,251	451
Assets purchased under reverse repurchase agreements	**36,289**	**36,289**	**—**	35,831	35,831	—
Loans	**170,394**	**172,259**	**1,865**	169,258	171,546	2,288
Derivative assets (1)	**36,088**	**36,391**	**303**	30,274	31,633	1,359
Other assets	**17,579**	**17,579**	**—**	17,736	17,736	—
Financial liabilities						
Deposits	**259,145**	**260,536**	**(1,391)**	243,486	245,136	(1,650)
Acceptances	**5,943**	**5,943**	**—**	8,051	8,051	—
Obligations related to securities sold short	**22,855**	**22,855**	**—**	19,110	19,110	—
Obligations related to assets sold under repurchase agreements	**23,735**	**23,735**	**—**	21,109	21,109	—
Derivative liabilities (1)	**38,053**	**38,240**	**(187)**	32,205	33,042	(837)
Other liabilities	**25,767**	**25,767**	**—**	25,623	25,623	—
Subordinated debentures	**6,243**	**6,587**	**(344)**	6,614	6,935	(321)

(1) As of November 1, 2002, certain warrants and loan commitments are also disclosed as derivatives and recorded at fair value on the Consolidated balance sheet.

Derivatives

	2003				2002	
	Average fair value for 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	**$ 124**	**$ 111**	**$ 47**	**$ 42**	$ 178	$ 177
Swaps	**19,461**	**19,380**	**16,136**	**15,934**	18,468	18,930
Options purchased	**603**	**—**	**758**	**—**	564	—
Options written	**—**	**532**	**—**	**773**	—	474
	20,188	**20,023**	**16,941**	**16,749**	19,210	19,581
Foreign exchange contracts						
Forward contracts	**8,843**	**8,967**	**9,965**	**10,540**	6,568	6,260
Cross currency swaps	**507**	**410**	**731**	**624**	504	340
Cross currency interest rate swaps	**2,832**	**2,697**	**4,553**	**3,634**	1,109	1,678
Options purchased	**1,066**	**—**	**1,200**	**—**	809	—
Options written	**—**	**1,033**	**—**	**1,309**	—	586
	13,248	**13,107**	**16,449**	**16,107**	8,990	8,864
Credit derivatives(2)	**776**	**370**	**711**	**374**	822	483
Other contracts (3)	**1,082**	**3,374**	**1,103**	**4,332**	1,028	3,093

	$35,294	**$36,874**	**35,204**	**37,562**	30,050	32,021
Held or issued for other than trading purposes						
Interest rate contracts						
Forward rate agreements			**4**	**20**	—	49
Swaps			**1,003**	**847**	1,140	842
Options purchased			**—**	**—**	1	—
Options written			**—**	**—**	—	13
			1,007	**867**	1,141	904
Foreign exchange contracts						
Forward contracts			**236**	**78**	234	94
Cross currency interest rate swaps			**275**	**99**	168	24
Options purchased			**20**	**—**	—	—
Options written			**—**	**—**	—	3
			531	**177**	402	121
Credit derivatives(2)			**2**	**22**	39	8
Other contracts(3)			**35**	**—**	13	—
			1,575	**1,066**	1,595	1,033
Total gross fair values before netting			**36,779**	**38,628**	31,645	33,054
Impact of master netting agreements						
With intent to settle net or simultaneously (4)			**(388)**	**(388)**	(12)	(12)
Without intent to settle net or simultaneously (5)			**(22,814)**	**(22,814)**	(20,849)	(20,849)
Total			**$ 13,577**	**$ 15,426**	$ 10,784	$ 12,193

(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 metal, commodity and equity-linked derivative contracts. As of November 1, 2002, certain warrants and loan commitments are also disclosed as derivatives and recorded at fair value on the Consolidated balance sheet.

(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 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.

Derivative financial instruments The fair value of derivatives is equal to the book value, with the exception of amounts relating to derivatives designated and qualifying for hedge accounting. The fair values of derivatives 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, incorporating primarily observable market data.

Other assets/liabilities The carrying values of Other assets and Other liabilities approximate their fair values.

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.

NOTE 24 Subsequent events

The following significant events occurred subsequent to October 31, 2003, and prior to the issuance of our 2003 consolidated financial statements.

Issue of subordinated debentures

On November 3, 2003, we issued $1 billion of subordinated debentures through our Canadian Medium Term Note Program.

The debentures bear interest at a fixed rate of 5.45% per annum, paid semi-annually until November 4, 2013, and at a three-month Bankers' Acceptance rate plus 1.00%, paid quarterly thereafter until their maturity on November 4, 2018.

We may, at our option, with the prior approval of the Superintendent of Financial Institutions Canada, redeem the debentures in whole at any time, or in part from time to time, on not less than 30 days' and not more than 60 days' notice to the registered holders. If the debentures are redeemed prior to November 4, 2013, the Redemption Price will be the greater of the Canada Yield Price and par. The debentures are redeemable on and after November 4, 2013, at par. The Canada Yield Price is the price that would provide a yield from the Redemption date to November 4, 2013, equal to 14 basis points plus the yield which a non-callable issue of Government of Canada bonds would carry from the Redemption Date to November 4, 2013.

Acquisition of the Canadian operation of Provident Life and Accident Insurance Company

On November 18, 2003, RBC Insurance announced the acquisition of the Canadian operation of Provident Life and Accident Insurance Company (PLAIC), a wholly owned subsidiary of UnumProvident Corporation. As part of the acquisition, RBC Insurance will assume PLAIC's policy liabilities and may invest up to $500 million to complete the acquisition.

The acquisition is expected to close by March 2004 and is subject to approval by Canadian regulators.

Acquisition of Provident Financial Group Inc.

On November 21, 2003, RBC Centura Banks, Inc., acquired the operations of Cincinnati, Ohio-based Provident Financial Group Inc. (Provident). The operations include all of Provident's operations in Florida, comprising 13 branches serving areas of Western Florida. The purchase consideration comprises US$80 million cash and the assumption of net tangible liabilities valued at approximately US$22 million. This amount represents total excess consideration of approximately US$102 million and will be allocated to core deposit intangibles and goodwill of approximately US$14 million and US$88 million, respectively.

NOTE 25 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 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, 2003, would result in a change in the under-one-year gap from $(59.1) billion to $(29.0) billion (2002 — $(37.5) billion to $(3.7) 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	$ —	$ 12,643	$ 2,003	$ 1,319	$ 217	$ —	$ 1,372	$ 17,554
Effective interest rate		1.65%	1.77%	2.26%	2.55%	—		
Securities Trading account	—	15,354	4,484	6,051	15,157	12,888	27,893	81,827
Effective interest rate		2.23%	2.08%	2.41%	3.59%	4.86%		
Investment account and loan substitute	—	6,227	2,840	5,381	14,363	5,001	1,751	35,563
Effective interest rate		3.05%	3.17%	3.72%	4.26%	4.66%		
Assets purchased under reverse repurchase agreements	—	35,646	320	323	—	—	—	36,289
Effective interest rate		2.36%	2.94%	2.80%	—	—		
Loans	46,443	35,961	6,371	9,782	64,769	7,378	(310)	170,394
Effective interest rate		2.36%	4.87%	5.20%	5.55%	6.03%		
Other assets	—	—	—	—	—	—	61,406	61,406
	46,443	105,831	16,018	22,856	94,506	25,267	92,112	403,033
Liabilities								
Deposits	98,050	86,889	17,989	21,647	31,828	1,585	1,157	259,145
Effective interest rate		2.03%	2.43%	2.49%	3.72%	4.83%		
Obligations related to securities sold short	—	1,919	493	318	6,790	6,655	6,680	22,855
Effective interest rate		2.36%	2.40%	3.03%	3.46%	4.99%		
Obligations related to assets sold under repurchase agreements	—	23,040	302	259	—	—	134	23,735
Effective interest rate		2.57%	2.75%	2.80%	—	—		
Other liabilities	—	—	—	—	—	—	70,292	70,292
Subordinated debentures	—	1,172	350	675	2,671	1,375	—	6,243
Effective interest rate		1.90%	5.40%	5.55%	6.50%	7.39%		
Non-controlling interest in subsidiaries	—	—	—	—	—	2,300	88	2,388
Effective interest rate		—	—	—	—	6.68%		
Shareholders' equity	—	—	—	—	300	532	17,543	18,375
Effective interest rate		—	—	—	4.70%	5.84%		
	98,050	113,020	19,134	22,899	41,589	12,447	95,894	403,033
On-balance sheet gap	(51,607)	(7,189)	(3,116)	(43)	52,917	12,820	(3,782)	—
Off-balance sheet financial instruments (1)								
Derivatives used for asset liability management purposes								
Pay side instruments	—	(20,410)	(2,095)	(4,123)	(34,314)	(6,969)	—	(67,911)
Effective interest rate		4.71%	4.88%	5.06%	4.52%	5.29%		
Receive side instruments	—	24,698	5,156	9,780	21,680	6,597	—	67,911
Effective interest rate		4.69%	4.02%	3.78%	4.74%	5.86%		
Derivatives used for trading purposes	—	(6,718)	(2,599)	(826)	8,677	14,225	(12,759)	—
Effective interest rate		2.76%	2.75%	2.78%	3.60%	4.97%		

	—	(2,430)	462	4,831	(3,957)	13,853	(12,759)	—
Total gap	$ (51,607)	$ (9,619)	$ (2,654)	$ 4,788	$ 48,960	$26,673	$ (16,541)	$ —
Canadian dollar	(24,709)	(7,433)	(1,860)	4,025	37,851	3,868	(11,705)	37
Foreign currency	(26,898)	(2,186)	(794)	763	11,109	22,805	(4,836)	(37)
Total gap	$ (51,607)	$ (9,619)	$ (2,654)	$ 4,788	$ 48,960	$26,673	$ (16,541)	$ —
Canadian dollar — 2002	(28,828)	9,104	3,614	112	30,953	4,475	(19,896)	(466)
Foreign currency — 2002	(25,074)	781	265	2,545	5,029	9,404	7,516	466
Total gap — 2002	$ (53,902)	$ 9,885	$ 3,879	$ 2,657	$ 35,982	$13,879	$ (12,380)	$ —

(1) Represents net notional amounts.

NOTE 26 Reconciliation of Canadian and United States generally accepted accounting principles

These consolidated financial statements have been prepared in accordance with Subsection 308 of the *Bank Act* (Canada), which states that except as otherwise specified by the Superintendent of Financial Institutions Canada, the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). As required by the United States Securities and Exchange Commission, material differences between Canadian and United States GAAP are described below.

Condensed consolidated balance sheets

	2003			2002		
	Canadian GAAP	Adjustments	U.S. GAAP	Canadian GAAP	Adjustments	U.S. GAAP
Assets						
Cash resources	**$ 17,554**	**$ (34)**	**$ 17,520**	$ 21,323	$ (30)	$ 21,293
Securities						
Trading	**81,827**	**(813)**	**81,014**	68,328	1,129	69,457
Investment account	**35,238**	**(35,238)**	**—**	25,078	(25,078)	—
Loan substitute	**325**	**(325)**	**—**	394	(394)	—
Available for sale	**—**	**35,783**	**35,783**	—	25,896	25,896
Assets purchased under reverse repurchase agreements	**36,289**	**—**	**36,289**	35,831	—	35,831
Loans	**170,394**	**98**	**170,492**	169,258	62	169,320
Other						
Customers' liability under acceptances	**5,943**	**—**	**5,943**	8,051	—	8,051
Derivative-related amounts	**35,612**	**1,028**	**36,640**	30,258	992	31,250
Premises and equipment	**1,670**	**(15)**	**1,655**	1,653	(14)	1,639
Goodwill	**4,587**	**46**	**4,633**	5,004	36	5,040
Other intangibles	**580**	**—**	**580**	665	—	665
Reinsurance recoverables	**—**	**3,321**	**3,321**	—	1,946	1,946
Separate account assets	**—**	**224**	**224**	—	68	68
Other assets	**13,014**	**5,483**	**18,497**	11,113	431	11,544
	$ 403,033	**$ 9,558**	**$412,591**	$ 376,956	$ 5,044	$382,000
Liabilities and shareholders' equity						
Deposits	**$ 259,145**	**$ 1,373**	**$260,518**	$ 243,486	$ 1,554	$245,040
Other						
Acceptances	**5,943**	**—**	**5,943**	8,051	—	8,051
Obligations related to securities sold short	**22,855**	**(112)**	**22,743**	19,110	(1,120)	17,990
Obligations related to assets sold under repurchase agreements	**23,735**	**—**	**23,735**	21,109	—	21,109
Derivative-related amounts	**37,775**	**652**	**38,427**	32,137	600	32,737
Insurance claims and policy benefit liabilities	**5,256**	**3,374**	**8,630**	2,825	1,922	4,747
Separate account liabilities	**—**	**224**	**224**	—	68	68
Other liabilities	**21,318**	**4,881**	**26,199**	23,372	1,702	25,074
Subordinated debentures	**6,243**	**338**	**6,581**	6,614	346	6,960
Non-controlling interest in subsidiaries	**2,388**	**(914)**	**1,474**	1,469	—	1,469
Shareholders' equity	**18,375**	**(258)**	**18,117**	18,783	(28)	18,755
	$ 403,033	**$ 9,558**	**$412,591**	$ 376,956	$ 5,044	$382,000

Condensed consolidated statements of income

	2003	2002	2001
Net income, Canadian GAAP	**$ 3,005**	$ 2,762	$ 2,411
Adjustments:			
Net interest income			
Derivative instruments and hedging activities (2)	**23**	(6)	(20)
Variable Interest Entities (9)	**(15)**	—	—
Other (11)	**(2)**	(1)	—
Non-interest income			
Insurance premiums, investment and fee income (1)	**(311)**	(133)	(129)
Derivative instruments and hedging activities (2)	**5**	97	18
Reclassification of securities (5)	**(12)**	—	—
Variable Interest Entities (9)	**1**	—	—

Other (11)	**(160)**	(152)	(140)
Provision for credit losses (5)	**6**	—	—
Insurance policyholder benefits, claims and acquisition expense (1)	**292**	205	191
Non-interest expense			
Stock appreciation rights (3)	**16**	17	—
Insurance-related expenses (1)	**35**	37	—
Other (11)	**122**	122	114
Income taxes and net change in income taxes due to the above items (7)	**17**	(50)	(10)
Non-controlling interest in net income of subsidiaries (9)	**14**	—	—
Net income, U.S. GAAP	**$ 3,036**	$ 2,898	$ 2,435
Earnings per share	**$ 4.48**	$ 4.16	$ 3.58
Diluted earnings per share	**$ 4.43**	$ 4.12	$ 3.55

NOTE 26 Reconciliation of Canadian and United States generally accepted accounting principles (continued)

(1) Insurance accounting

There are differences between U.S. and Canadian GAAP treatment with respect to life insurance premiums, investments, acquisition costs and claims and policy benefit liabilities. These lead to timing differences in income and expense recognition. The accounting treatments for Reinsurance recoverables, Separate account assets and liabilities, Other assets and Other liabilities under U.S. and Canadian GAAP are also different. Under U.S. GAAP, the valuation of Insurance claims and policy benefit liabilities is based on several accounting standards issued by the Financial Accounting Standards Board (FASB), but under Canadian GAAP, the liabilities are calculated using the actuarial standards of the Canadian Institute of Actuaries. Reinsurance recoverables of ceded contracts are presented on a gross basis as a separate balance sheet asset under U.S. GAAP, rather than netted against Insurance claims and policy benefit liabilities under Canadian GAAP. Separate account assets and liabilities are presented in summary lines in the Consolidated balance sheet under U.S. GAAP, while they are not included in the consolidated financial statements under Canadian GAAP. The application of U.S. GAAP would increase Net income by $12 million for the year ended October 31, 2003. It would also increase Other assets by $3,645 million, Other liabilities by $3,541 million and Shareholders' equity by $104 million as at October 31, 2003.

(2) Derivative instruments and hedging activities

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 and non-trading derivatives that do not qualify for hedge accounting are recorded on the balance sheet at fair value with changes in fair value recorded in Net income. Non-trading derivatives that did not qualify for hedge accounting on the adoption of Accounting Guideline 13, *Hedging Relationships*, are recorded at fair value with transition gains or losses being recognized in income as the original hedged item affects Net income. Where derivatives have been designated and function effectively as hedges, income or expense is recognized over the life of the hedged asset or liability as adjustments to Interest income or Interest expense. Recording derivatives and hedging activities in accordance with U.S. GAAP would increase Net income by $18 million for the year ended October 31, 2003. It would also increase Securities by $34 million, Loans by $51 million, Other assets by $792 million, Deposits by $76 million, Other liabilities by $460 million and Subordinated debentures by $338 million, and would decrease Cash resources by $34 million, and Shareholders' equity by $31 million as at October 31, 2003.

(3) Stock appreciation rights

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. Recording compensation expense in accordance with U.S. GAAP would increase Net income by $11 million for the year ended October 31, 2003. It would also increase Shareholders' equity by $19 million, and would decrease Other assets by $11 million and Other liabilities by $30 million as at October 31, 2003.

(4) Additional pension obligation

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. Recording this additional pension obligation in accordance with U.S. GAAP would increase Other assets by $280 million and Other liabilities by $770 million, and would reduce Shareholders' equity by $490 million as at October 31, 2003.

(5) Reclassification of securities

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. Writedowns to reflect other than temporary impairment in the value of Available for sale securities are included in Non-interest income. Under Canadian GAAP, Securities are classified as Trading account (carried at estimated fair value), Investment account (carried at amortized cost) or Loan substitute. Writedowns to reflect other than temporary impairment in the value of Investment account securities are included in Non-interest income. Loan substitute securities are accorded the accounting treatment applicable to loans and, if required, are reduced by an allowance for credit losses. Classifying Securities in accordance with U.S. GAAP would decrease Net income by $4 million for the year ended October 31, 2003. It would also increase Securities by $182 million and Shareholders' equity by $116 million, and would decrease Other assets by $66 million as at October 31, 2003.

(6) Trade date accounting

Under U.S. GAAP, trade date accounting for Securities is used for both the Consolidated balance sheet and the Consolidated statement of income. Under Canadian GAAP settlement date accounting is used for the Consolidated balance sheet and trade date accounting is used for the Consolidated statement of income. The application of trade date accounting to our Consolidated balance sheet would increase Other assets by $1,639 million and Other liabilities by $469 million, and would decrease Securities by $1,170 million as at October 31, 2003.

(7) Income taxes

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) Guarantees

Under U.S. GAAP, the initial liability for obligations assumed with respect to guarantees issued or modified after December 31, 2002, is recorded on the balance sheet at fair value. Recording guarantees in accordance with U.S. GAAP would increase Other assets and Other liabilities by $38 million as at October 31, 2003.

(9) Variable Interest Entities

Pursuant to FIN 46, *Consolidation of Variable Interest Entities*, under U.S. GAAP we consolidate Variable Interest Entities (VIEs) created after January 31, 2003, where we are the entity's Primary Beneficiary. VIEs are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Primary Beneficiary is the party that has exposure to a majority of the expected losses and/or expected residual returns of the VIE. Under Canadian GAAP, pending the adoption of Accounting Guideline 15, *Consolidation of Variable Interest Entities*, we consolidate these entities if we control them for economic benefits and are exposed to the related risks. Recording VIEs in accordance with U.S. GAAP would increase Loans by $47 million, Deposits by $938 million and Other liabilities by $12 million, and would decrease Other assets by $11 million, and Non-controlling interest in subsidiaries by $914 million as at October 31, 2003.

(10) Non-cash collateral

Under U.S. GAAP, non-cash collateral received in securities lending transactions is recorded on the Consolidated balance sheet with a corresponding obligation to return it if we have the ability to sell or repledge it. This would increase Other assets and Other liabilities by $3,877 million as at October 31, 2003.

(11) Other

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 decrease Net income by $6 million for the year ended October 31, 2003, and would also increase Securities by $361 million, Deposits by $359 million and Shareholders' equity by $24 million, and would decrease Other assets by $96 million and Other liabilities by $118 million as at October 31, 2003.

Quarterly highlights

(C$ millions, except per share and percentage amounts)	2003 Q4	2003 Q3	2003 Q2	2003 Q1	2002 Q4	2002 Q3	2002 Q2	2002 Q1
Consolidated statement of income								
Net interest income	**$ 1,633**	**$ 1,653**	**$ 1,633**	**$ 1,723**	$ 1,740	$ 1,704	$ 1,684	$ 1,807
Non-interest income	**2,727**	**2,795**	**2,532**	**2,722**	2,528	2,547	2,693	2,552
Provision for credit losses	**(140)**	**(170)**	**(211)**	**(200)**	(235)	(216)	(328)	(286)
Insurance policyholder benefits, claims and acquisition expense	**(513)**	**(424)**	**(351)**	**(408)**	(420)	(389)	(448)	(278)
Non-interest expense	**(2,624)**	**(2,615)**	**(2,560)**	**(2,610)**	(2,634)	(2,547)	(2,583)	(2,656)
Income taxes	**(300)**	**(425)**	**(315)**	**(420)**	(285)	(375)	(315)	(390)
Non-controlling interest	**(37)**	**(31)**	**(31)**	**(28)**	(28)	(27)	(26)	(27)
Net income	**$ 746**	**$ 783**	**$ 697**	**$ 779**	$ 666	$ 697	$ 677	$ 722
Earnings per share (1)								
Basic	**$ 1.12**	**$ 1.17**	**$ 1.01**	**$ 1.14**	$ .96	$ 1.00	$ .97	$ 1.03
Diluted	**1.11**	**1.16**	**1.00**	**1.12**	.95	.99	.96	1.03
Performance ratios								
Return on common equity	**16.5%**	**17.5%**	**15.7%**	**17.1%**	14.8%	15.6%	16.0%	16.9%
Return on assets	**.74**	**.78**	**.72**	**.79**	.70	.76	.76	.79
Return on assets after preferred dividends	**.73**	**.77**	**.70**	**.76**	.67	.73	.73	.76
Net interest margin (2)	**1.62**	**1.65**	**1.69**	**1.74**	1.83	1.86	1.89	1.98
Non-interest incomeas a % of total revenues	**62.5**	**62.8**	**60.8**	**61.2**	59.2	59.9	61.5	58.5
Consolidated balance sheet								
Assets								
Cash resources and securities	**$ 134,944**	**$ 129,032**	**$ 126,436**	**$ 120,744**	$ 115,123	$ 111,813	$ 107,785	$ 101,795
Assets purchased under reverse repurchase agreements	**36,289**	**41,868**	**37,087**	**37,874**	35,831	34,938	33,373	30,503
Residential mortgage loans	**78,817**	**77,199**	**74,429**	**73,415**	72,840	70,639	70,116	69,436
Personal loans	**34,003**	**33,171**	**32,451**	**31,956**	31,956	32,222	32,292	31,600
Credit card loans	**4,816**	**5,625**	**5,327**	**5,214**	4,914	4,774	4,445	4,338
Business and government loans	**54,813**	**57,187**	**57,854**	**59,957**	61,751	64,138	63,554	64,234
Allowance for loan losses	**(2,055)**	**(2,156)**	**(2,226)**	**(2,267)**	(2,203)	(2,218)	(2,338)	(2,345)
Other assets	**61,406**	**62,053**	**60,730**	**62,911**	56,744	57,135	47,090	54,152
	$ 403,033	**$ 403,979**	**$ 392,088**	**$ 389,804**	$ 376,956	$ 373,441	$ 356,317	$ 353,713
Liabilities and shareholders' equity								
Personal deposits	**$ 106,709**	**$ 106,776**	**$ 105,845**	**$ 105,293**	$ 101,892	$ 101,072	$ 99,990	$ 100,505
Business, government and bank deposits	**152,436**	**149,675**	**145,310**	**142,880**	141,594	143,383	135,888	133,659
Other liabilities	**116,882**	**120,187**	**113,907**	**114,340**	106,604	101,628	93,377	92,773
Subordinated debentures	**6,243**	**6,440**	**6,474**	**6,571**	6,614	7,043	7,025	7,105
Non-controlling interest in subsidiaries	**2,388**	**2,355**	**1,475**	**1,445**	1,469	1,444	1,466	1,440
Total equity	**18,375**	**18,546**	**19,077**	**19,275**	18,783	18,871	18,571	18,231
	$ 403,033	**$ 403,979**	**$ 392,088**	**$ 389,804**	$ 376,956	$ 373,441	$ 356,317	$ 353,713
Selected average balances and off-balance sheet data								
Averages (3)								
Assets	**$ 399,100**	**$ 397,000**	**$ 395,800**	**$ 393,600**	$ 377,700	$ 362,900	$ 366,300	$ 362,400
Loans, acceptances and reverse repurchase agreements	**217,239**	**214,414**	**216,274**	**220,271**	217,168	208,338	207,531	209,439
Deposits	**250,986**	**250,659**	**248,274**	**253,105**	247,258	236,918	237,479	239,838
Common equity	**17,623**	**17,506**	**17,667**	**17,500**	17,170	17,055	16,681	16,365
Total equity	**18,459**	**18,509**	**19,184**	**19,044**	18,833	18,747	18,387	18,149
Assets under administration	**1,483,900**	**1,444,000**	**1,368,200**	**1,434,200**	1,365,900	1,413,100	1,442,800	1,426,600
Assets under management	**88,900**	**89,200**	**88,700**	**91,600**	90,800	94,200	96,200	103,300
Provision for credit losses								
Specific	**$ 140**	**$ 170**	**$ 211**	**$ 200**	$ 235	$ 216	$ 328	$ 286
General provision								
General allocated	**7**	**(5)**	**2**	**2**	(15)	4	—	(11)
General unallocated	**(7)**	**5**	**(2)**	**(2)**	15	(4)	—	11
Total general provision	**—**	**—**	**—**	**—**	—	—	—	—
Total	**$ 140**	**$ 170**	**$ 211**	**$ 200**	$ 235	$ 216	$ 328	$ 286
Net impaired loans as a % of loans, acceptances and reverse repurchase agreements	**.46%**	**.48%**	**.59%**	**.67%**	.65%	.69%	.71%	.81%
Capital ratios								
Common equity/risk-adjusted assets	**10.5%**	**10.4%**	**10.6%**	**10.6%**	10.4%	10.2%	10.0%	9.8%
Tier 1	**9.7**	**9.6**	**9.6**	**9.4**	9.3	9.1	9.0	8.8
Total	**12.8**	**12.7**	**12.8**	**12.7**	12.7	12.7	12.6	12.3
Common share information								
Shares outstanding (in thousands)								
End of period	**656,021**	**658,612**	**662,427**	**666,439**	665,257	671,671	673,860	673,596
Average basic	**656,952**	**660,810**	**664,634**	**666,006**	668,868	673,787	673,751	674,465
Average diluted	**663,841**	**667,543**	**671,398**	**673,400**	674,840	679,168	678,751	679,729
Dividends per share	**$ .46**	**$ .43**	**$ .43**	**$ .40**	$ .40	$ .38	$ .38	$ .36
Book value per share	**26.74**	**26.88**	**26.53**	**26.62**	25.91	25.56	25.04	24.53
Common share price — High (4)	**65.00**	**61.64**	**59.91**	**59.86**	57.55	58.89	57.07	52.45
Low (4)	**57.50**	**56.75**	**53.26**	**53.91**	48.80	45.05	46.36	46.81
Close	**63.48**	**58.90**	**59.80**	**53.30**	54.41	53.45	54.97	50.00

Dividend yield	**3.0%**	**2.9%**	**3.0%**	**2.8%**	3.0%	2.9%	2.9%	2.9%
Dividend payout ratio	**41%**	**37%**	**42%**	**35%**	41%	38%	39%	35%

(1) Earnings per share for the year may not equal the sum of the quarters.

(2) Net interest income as a percentage of average assets.

(3) Based on methods intended to approximate the average of the daily balances for the period.

(4) Intraday high and low share prices.

EXHIBIT 4

INDEPENDENT AUDITORS' CONSENT

We consent to the use of our reports dated November 25, 2003 on the consolidated balance sheet of Royal Bank of Canada as at October 31, 2003 and the consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, which appear in this Annual Report on Form 40-F.

/s/ "Deloitte & Touche LLP"
Chartered Accountants
Toronto, Ontario
November 25, 2003

INDEPENDENT AUDITORS' CONSENT

We consent to the use of our reports dated November 19, 2002 on the consolidated balance sheet of Royal Bank of Canada as at October 31, 2002 and the consolidated statements of income, shareholders' equity and cash flows for each of the years in the two-year period ended October 31, 2002 which appear in this Annual Report on Form 40-F.

/s/ "Deloitte & Touche LLP"
Chartered Accountants
Toronto, Ontario
November 19, 2002

/s/ "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 the addition of an explanatory paragraph (following the 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 Notes 1 and 13 to the financial statements. Our reports to the shareholders dated November 25, 2003 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.

/s/ "Deloitte & Touche LLP"
Chartered Accountants
Toronto, Ontario
November 25, 2003

EXHIBIT 6

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 the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the two-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 the results of its operations and its cash flows for each of the years in the two-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 consolidated financial statements, prepared in accordance with United States generally accepted accounting principles.

/s/ "Deloitte & Touche LLP"
Chartered Accountants

/s/ "PricewaterhouseCoopers LLP"
Chartered Accountants

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 the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the two-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.

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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 consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

/s/ "Deloitte & Touche LLP"
Chartered Accountants

/s/ "PricewaterhouseCoopers LLP"
Chartered Accountants

Toronto, November 19, 2002

EXHIBIT 7

AUDIT COMMITTEE

DECEMBER 16, 2003

POLICIES AND PROCEDURES

FOR THE PRE-APPROVAL OF SERVICES

TO BE PERFORMED BY REGISTERED PUBLIC ACCOUNTING FIRMS

Mandate

1. The mandate of the Audit Committee established by the board of directors confers on the Committee the authority and responsibility (among other things) to pre-approve all audit and any legally permissible non-audit services to be provided by the external auditors and all audit, review and attest services provided by any other registered public accounting firm, with such approval to be given either specifically or pursuant to pre-approval policies and procedures adopted by the Committee.

Purpose

2. These Policies and Procedures are intended:

    a) to specify the methods by which the Audit Committee may pre-approve the provision of audit, review and attest services by any registered public accounting firm to the bank and its subsidiaries;

    b) to specify the methods by which the Audit Committee may pre-approve the provision of non-audit services to the Bank and its subsidiaries by the Bank's external auditors and their affiliates (the "auditors") that do not impair the independence of the auditors;

    c) to set forth procedures designed to ensure that any services to be provided by the auditors and that any audit, review or attestation services to performed by any other registered public accounting firm have been properly authorized and pre-approved under the authority of the Audit Committee, and that the Committee is promptly informed of each service; and

    d) to ensure that the Audit Committee's responsibilities under applicable law are not delegated to management.

Required Approval of Audit and Non-Audit Services

3. The Audit Committee shall approve:

    a) all engagements of the auditors by the bank or any of its subsidiaries, and

    b) all engagements of any registered public accounting firm to provide audit, review or attest services to the bank or any subsidiary.

4. The Audit Committee shall evidence its pre-approval by resolution of the Committee or through the exercise of delegated authority in accordance with these Policies and Procedures.

5. "Subsidiary" has the meaning set forth in Rule 1-02(x) of the U.S. Securities and Exchange Commission's Regulation S-X and includes any entity that the bank "controls" (as such term is defined in Rule 1-02(g) of Regulation S-X). The bank considers the following entities to be "subsidiaries":

    a) any consolidated entity;

b) any entity for which the bank equity accounts, and

c) any entity of which the bank has control in fact.

If the bank and the auditors agree that any such entity should not be treated as a “subsidiary” because the bank does not control it for the purposes of Regulation S-X, they shall jointly present their recommendation to the Audit Committee. The Audit Committee may determine that such entity need not be treated as a “subsidiary” for the purposes of these Policies and Procedures, unless and until there is a change in the facts that formed the basis for the determination.

6. For the purpose of these Policies and Procedures and any pre-approval:

a) “Audit services” include services that are a necessary part of the audit process and any activity that is a necessary procedure used by the accountant in reaching an opinion on the financial statements as is required under generally accepted auditing standards (“GAAS”), including technical reviews to reach an audit judgment on complex accounting issues;

b) The term “audit services” is broader than those services strictly required to perform an audit pursuant to GAAS and include such services as:
   i) the issuance of comfort letters and consents in connection with offerings of securities;
   ii) the performance of domestic and foreign statutory audits;
   iii) internal control reviews;
   iv) attest services required by statute or regulation; and
   v) assistance with and review of documents filed with the Office of the Superintendent of Financial Institutions, Canadian securities administrators, the Securities and Exchange Commission and other regulators having jurisdiction over the activities of the bank and its subsidiaries, and responding to comments from such regulators;

c) “Audit-related” services are assurance (e.g., due diligence services) and related services traditionally performed by the principal accountant and that are reasonably related to the performance of the audit or review of financial statements and not categorized under “audit fees” for disclosure purposes.

   “Audit-related services” include:
   i) employee benefit plan audits, including audits of employee pension plans,
   ii) due diligence related to mergers and acquisitions,
   iii) consultations and audits in connection with acquisitions, including evaluating the accounting treatment for proposed transactions;
   iv) internal control reviews;
   v) attest services not required by statute or regulation; and
   vi) consultations regarding financial accounting and reporting standards.

   Non-financial operational audits are not “audit-related” services;

d) “Review services” are services applied to unaudited financial statements and consist of the inquiry and analytical procedures that provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to financial statements for them to be in conformity with GAAP or, if applicable, any other comprehensive basis of accounting;

e) “Attest” services are those engagements where the accountant issues an examination, a review, or an agreed-upon procedures report on a subject matter, or an assertion about the subject matter that is the responsibility of another party. Examples of the subject matter of an “attest” engagement include: examinations (i.e., audits) of financial forecasts and projections; reviews of pro-forma financial information; reporting on a company’s internal control over financial reporting; and examinations of compliance with contractual arrangements or laws and regulations.

Delegation

7. The Audit Committee may from time to time delegate to one or more of its members who are “independent” (within the meanings of applicable law and the rules or policies of a securities commission having jurisdiction, the TSX and the NYSE) the power to pre-approve from time to time:

    a) audit, review or attest services to be provided by any registered public accounting firm that have not been otherwise approved by the Committee;

    b) permissible non-audit services to be provided by the auditors that have not otherwise been approved by the Committee, and

    c) changes in the scope of pre-approved engagements and the maximum estimated fees for engagements that have been pre-approved by the Committee.

8. The member(s) exercising such delegated authority must report at the next regularly scheduled meeting of the Audit Committee any services that were pre-approved under this delegated authority since the date of the last regularly scheduled meeting.

9. The member(s) exercising delegated authority may evidence his or her approval by signing an instrument in writing that describes the engagement with reasonable specificity, or by signing an engagement letter.

10. In addition, member(s) exercising delegated authority may pre-approve an engagement orally, if any such oral approval is promptly confirmed in writing. Such written confirmation may be given by fax or e mail and must describe the engagement with reasonable specificity.

Responsibilities of External Auditors

11. To support the independence process, the external auditors shall:

    a) confirm in engagement letters that performance of the work will not impair independence;

    b) satisfy the Audit Committee that they have in place comprehensive internal policies and processes to ensure adherence, world-wide, to independence requirements, including robust monitoring and communications;

    c) provide regular communication and confirmation to the Committee on independence;

    d) provide for Committee approval, in connection with each annual audit engagement, a detailed scope of services outlining each individual audit to be performed and a detailed description of audit-related services;

    e) utilize the assigned tracking numbers in all fee billings and correspondence and provide detailed quarterly, fee reporting.

    f) maintain certification by the Canadian Public Accountability Board and the U.S. Public Company Accounting Oversight Board; and

    g) review their partner rotation plan and advise the Committee on an annual basis.

Engagements

12. The Audit Committee will not, as a general rule, pre-approve a service more than one year prior to the time at which it is anticipated that the firm of accountants will be engaged to provide the service.

13. Engagements will not be considered to be revolving in nature and may not operate from year-to-year.

14. All audit and non-audit services to be provided by the auditors and all audit, review or attest services to be provided by any registered public accounting firm shall be provided pursuant to an engagement letter that shall:

    a) be in writing and signed by the auditors or registered public accounting firm;

    b) specify the particular services to be provided;

    c) specify the period in which the services will be performed;

    d) specify the maximum total fees to be paid; and

    e) in the case of engagements of the auditors, include a confirmation by the auditors that the services are not within a category of services the provision of which would impair their independence under applicable law and Canadian and U.S. generally accepted auditing standards.

15. Management shall, before signing and delivering an engagement letter on behalf of the Bank or a subsidiary and before authorizing the commencement of an engagement:

    a) obtain an engagement letter in accordance with the foregoing;

    b) confirm that the services are described in the engagement letter accurately and with reasonable specificity;

    c) obtain confirmation from the auditors that they have conducted an analysis that supports their conclusion that performance of the services will not impair their independence;

    d) obtain confirmation from legal counsel for the Bank that performance of the services will not impair independence; and

    e) verify that the performance of the services has been specifically approved by the Audit Committee or the Chairman (or another member) in accordance with authority delegated by the Committee.

All engagement letters entered into pursuant to these Policies and Procedures shall be made available to the Audit Committee.

Tax Services

16. The Audit Committee, and any member in the exercise of delegated power, shall consider the provision of tax services by the auditors on an engagement-by-engagement basis.

17. The Audit Committee shall not pre-approve, and any member of the Audit Committee may not exercise delegated power to engage the auditors to provide, tax services to the bank or a subsidiary:

    a) to represent the bank or a subsidiary before a tax or other court; or

    b) for other tax services where, under applicable guidance, the auditors' independence could be compromised.

Business Recovery Services

18. The Audit Committee, and any member in the exercise of delegated power, shall consider the provision of business recovery services by the auditors on an engagement-by-engagement basis.

19. The Audit Committee shall not pre-approve, and any member may not exercise delegated power to engage the auditors to provide, business recovery services that involve the auditors functioning in the role of management, auditing their own work, providing appraisal or valuation services or fairness opinions, serving in an advocacy role for the bank, providing legal services, providing services that fall within the category of "expert" services

that are prohibited by applicable law, or providing services that would otherwise compromise their independence under applicable regulatory guidance.

Timely Reporting to the Audit Committee

20. Management shall provide a quarterly written report to the Audit Committee of each service performed and fees, at the scheduled meeting of the Committee held following the end of each fiscal quarter end.

No Delegation to Management

21. Nothing in these Policies and Procedures shall be interpreted as a delegation to management of the Audit Committee's responsibilities under applicable law.

Effective Date

22. These Policies and Procedures are effective as and from December 16, 2003.

Disclosure

23. The bank shall disclose these Policies and Procedures in its periodic filings, as required by applicable law.

Annual Review

24. The Audit Committee shall review and reassess the adequacy of these Policies and Procedures on an annual basis.

EXHIBIT 31

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 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 report;

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) [Omitted in accordance with the guidance of SEC Release No. 33-8238]

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 29, 2003.

/s/ "Gordon M. Nixon"

Gordon M. Nixon
President & Chief Executive Officer

I, Peter W. Currie, Vice-Chairman & 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 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 report;

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) [Omitted in accordance with the guidance of SEC Release No. 33-8238]

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 29, 2003.

/s/ "Peter W. Currie"

Peter W. Currie
Vice-Chairman & Chief Financial Officer

EXHIBIT 32

CERTIFICATIONS

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Royal Bank of Canada, a Canadian chartered Bank (the "Bank"), hereby certifies, to such officer's knowledge, that:

The Annual Report on Form 40-F for the year ended October 31, 2003 (the "Report") of the Bank fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Dated: December 29, 2003

/s/ "Gordon M. Nixon"

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

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Royal Bank of Canada, a Canadian chartered Bank (the “Bank”), hereby certifies, to such officer’s knowledge, that:

The Annual Report on Form 40-F for the year ended October 31, 2003 (the “Report”) of the Bank fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Dated: December 29, 2003

/s/ “Peter W. Currie”

Name: Peter W. Currie
Title: Vice Chairman & Chief Financial Officer