U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

[Check one]

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

OR

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

For the fiscal year ended October 31, 2004 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: Carol McNamara
Vice President & Secretary
(416) 974-0117
(Address and telephone number of registrant's principal executive offices)

Royal Bank of Canada
One Liberty Plaza
New York, New York 10006-1404
Attention: LaBrena Jones Martin
Senior Vice President
Deputy General Counsel
(212) 858-7110
(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:

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Senior Counsel
Royal Bank of Canada
200 Bay Street
Toronto, Ontario
Canada M5J 2J5
Tel: (416) 974-0446

Donald R. Crawshaw
Sullivan & Cromwell LLP
125 Broad Street
New York, New York 10004
Tel: (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	644,995,367
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_____ No X

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

Yes X No_____

INCORPORATION BY REFERENCE

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, 2004, an evaluation was carried out, under the supervision of and with the participation of the Registrant's management, including the Registrant's President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15) under the Exchange Act. Based on that evaluation, the Registrant's President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No changes were made in the Registrant's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

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 United States Securities and Exchange Commission 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 seven years and became the Registrant's sole auditor in September 2003. Fees payable for the years ended October 31, 2004 and October 31, 2003 to Deloitte & Touche LLP and its affiliates are Cdn$18.8 million and Cdn$22.4 million.

Fees payable to Deloitte & Touche LLP and its affiliates in 2004 and 2003 are detailed below.

	Year ended October 31, 2004		Year ended October 31, 2003	
		(millions)		
Audit fees	Cdn$	16.1	Cdn$	16.5
Audit-related fees		2.0		1.4
Tax fees		0.4		1.6
All other fees		0.3		2.9
	Cdn$	18.8	Cdn$	22.4

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 Cdn$11.7 million. For 2003, fees payable to Deloitte & Touche LLP and PricewaterhouseCoopers LLP were Cdn$34.1 million in total.

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 annual financial statements of the Registrant and its subsidiaries 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 not required by statute or regulation;
- 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 foundations;
- the audits of various trusts and other entities as required in connection with the securitization of credit cards and mortgage loans; and
- the audit of certain special purpose vehicles relating to complex structured products.

Tax Fees

Tax fees were paid for tax compliance services 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.

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:

- French translation of: the annual consolidated financial statements and management's discussion and analysis for the years ended October 31, 2003 and October 31, 2004; 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; certain sections of the Registrant's Annual Report to Shareholders; and financial statements of certain of the Registrant's subsidiaries; and
- 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; or acts as monitor under private appointment.

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, 2004, 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 68 to 71 of Exhibit 2 and pages 68A to 71A of Exhibit 3.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

See page 67 of Exhibit 2 and page 67A of Exhibit 3.

IDENTIFICATION OF THE AUDIT COMMITTEE

See page 35 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: “Gordon M. Nixon”

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

Date: December 20, 2004

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 20, 2004
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 to Shareholders (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 to Shareholders (Canadian GAAP) Consolidated Financial Statements (Canadian GAAP) Reconciliation of Canadian and U.S. Generally Accepted Accounting Principles Quarterly Highlights
4.1	Consent of Auditors
4.2	Auditors' Reports (2002)
5.	Reporting Difference Comments
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



ROYAL BANK OF CANADA

ANNUAL INFORMATION FORM

December 20, 2004

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Unless otherwise specified, this annual information form presents information as at October 31, 2004.

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Unless otherwise specified, this annual information form presents information as at October 31, 2004.

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 34.

BUSINESS

Overview — Royal Bank of Canada, stock symbol RY on the Toronto Stock Exchange ("TSX"), New York Stock Exchange ("NYSE"), and Swiss Exchange ("SWX"), operating under the master brand RBC Financial Group, during the fiscal year ended October 31, 2004, had five major business segments: RBC Banking (personal and commercial banking), RBC Investments (wealth management), RBC Insurance (insurance), RBC Capital Markets (corporate and investment banking), and RBC Global Services (securities custody and transaction processing). Royal Bank of Canada is Canada's largest bank 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 over 60,000 employees on a full-time equivalent basis worldwide. The delivery network includes approximately 1,416 branches, and 4,372 automated banking machines.

Effective November 1, 2004, the five prior business segments were realigned into three segments structured around client need and geographic location: (1) a Canadian personal and business segment, which combines our Canadian banking, investments and global insurance businesses, including Canadian, U.S. and international insurance operations; (2) a U.S. and international segment, which includes banking and investments in the U.S., banking and brokerage in the Caribbean, and Global Private Banking internationally; and (3) a global capital markets segment that includes corporate banking, which serves corporate and larger commercial clients. The bank is integrating all systems and operating capabilities in a global technology and operations group. We will begin reporting our financial results under the new structure in the first quarter of fiscal 2005.

RBC Banking — In fiscal 2004, the personal and commercial banking segment provided banking and financial services to individuals, small and medium-sized businesses and mid-market commercial clients. The segment was structured geographically:

- In Canada, RBC Banking operated under the brand name RBC Royal Bank.
- In the United States, RBC Banking operated through RBC Centura Bank ("RBC Centura"), RBC Builder Finance and RBC Mortgage Company . RBC Centura is a Rocky Mount, North Carolina-based bank focused on personal and commercial markets in the Southeast U.S. Houston-based RBC Builder Finance provides financing to homebuilders and developers throughout the U.S., while RBC Mortgage Company is a Chicago-based national retail mortgage originator. On October 19, 2004, RBC Mortgage Company

announced that it would operate from a single, Houston-based headquarters by the end of January 2005.

- In the Caribbean and the Bahamas, RBC Banking operated through RBC Royal Bank of Canada, as well as through residential mortgage focused Finance Corporation of Bahamas Limited in the Bahamas.

In fiscal 2004, RBC Banking delivered services through branches and automated banking machines, as well as via telephone and the Internet. Approximately 1,098 branches were in Canada, 275 in the U.S. (through RBC Centura, which included 21 de novo branches opened in Atlanta, various locations in Florida and other high growth U.S. Southeast markets in 2004), and 43 in the Caribbean and the Bahamas. Of the 4,372 automated banking machines, 3,999 were located in Canada, 304 in the U.S., and 69 in the Caribbean and the Bahamas. The segment employed over 37,800 people on a full-time equivalent basis, plus a mobile sales staff of over 850 mortgage representatives and more than 480 Investment and Retirement Planners.

In fiscal 2004, the personal and commercial banking business delivered 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. Financial Planning and Private Banking services were operated jointly by RBC Investments and RBC Banking.

In November 2003, RBC Centura acquired Ohio based Provident Financial Group's Florida branch and ATM network for approximately US$81 million. 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.

The following are the principal companies that provided products and services under RBC Banking in fiscal 2004: Royal Bank of Canada, Royal Bank Mortgage Corporation, Royal Mutual Funds Inc., RBC Centura Bank, RBC Mortgage Company, Finance Corporation of Bahamas Limited, Royal Trust Corporation of Canada, and The Royal Trust Company.

Effective November 1, 2004, most of the Canadian operations within RBC Banking became part of the new Canadian personal and business segment, and operations in the U.S. and the Caribbean and the Bahamas became part of the new U.S. and international segment. Larger commercial clients previously served by RBC Banking will be served by the new global capital markets segment.

RBC Investments — In fiscal 2004, the wealth management division provided 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. The businesses were structured geographically as follows:

- Canada — RBC Investments was the brand name used by the wealth management businesses in Canada. RBC Dominion Securities was the largest full service brokerage firm in Canada, based on assets under administration, and had over 1,320 investment advisors and $111 billion in assets under administration. RBC Action Direct was the second-largest Canadian self-directed brokerage service as measured by assets under administration. Private Counsel, Private Banking, and Trust Services offered a relationship management approach to high net worth clients in need of sophisticated solutions across Canada. Financial Planning served domestic clients in existing relationships with bank branches with more than $50,000 in investable assets, of which a portion typically included mutual funds or managed products. Financial Planning had approximately 1,000 relationship financial planners and more than 480 commission-based Investment and Retirement Planners who were also financial planners and licensed mutual funds sales people. Financial Planning and Private Banking are businesses that were operated jointly by RBC Investments and RBC Banking in fiscal 2004.

- United States — RBC Dain Rauscher was the brand name used in the U.S. In fiscal 2004, RBC Dain Rauscher, a full-service securities firm in the U.S. with over 1,750 financial consultants from coast to coast, provided affluent private clients in chosen markets with personalized comprehensive financial solutions. RBC Dain Rauscher also provided fixed income, investment financing, as well as asset management and correspondent brokerage services.

- Internationally — Royal Bank of Canada Global Private Banking was the brand name used internationally. Global Private Banking provided private banking, trust, investment management, and investment advisory solutions to high net worth clients (with assets of more than US$1 million) in more than 100 countries.

In addition to the businesses described above, in fiscal 2004, the Global Asset Management business of RBC Investments provided investment management products and services primarily through RBC Asset Management. The 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. Global Asset Management also provided 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. Global Asset Management also included Voyageur Asset Management, our U.S. based asset management company which manages US$25 billion in mutual funds and institutional mandates.

In February 2004, RBC Dain Rauscher acquired St. Petersburg, Florida based William R. Hough & Co., a privately held full-service investment firm that specializes in fixed income sales, trading and underwriting primarily in the Southeast U.S., for a purchase price of US$112 million. In March 2003, RBC Dain Rauscher acquired West Paterson, New Jersey-based First Institutional Securities. In May 2003, RBC Dain Rauscher acquired Jones & Babson Inc., an asset management firm based in Kansas City. The purchase was part of a larger agreement by Liberty Life Insurance Company to acquire Missouri-based Business Men's Assurance Company of America.

The following are the principal companies that provided products and services under RBC Investments: 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) Limited, Royal Bank of Canada Fund Managers (Jersey) Limited, and RBC Trustees (Guernsey), Limited.

Effective November 1, 2004, Canadian operations within RBC Investments became part of the new Canadian personal and business segment while the U.S. and international operations became part of the new U.S. and international segment.

RBC Insurance — In fiscal 2004, the insurance segment provided a wide range of creditor, life, health, travel, home, auto and reinsurance products and services to more than five million clients in Canada, the U.S. and internationally. The segment was structured by product type, as follows:

- RBC Life Insurance Company — offered individual and group life and health insurance solutions through more than 17,000 independent brokers and approximately 500 career sales representatives to clients in Canada.
- RBC General Insurance Company — offered home and auto insurance products through direct sales channels as well as employee and affinity plans to clients in Canada.
- RBC Travel Insurance Company and Assured Assistance Inc. — provided travel insurance products and services through a network of over 4,000 travel agencies, as well as over the Internet and through bank channels to clients in Canada, the U.S. and internationally.
- RBC Reinsurance (Ireland) Limited and Royal Bank of Canada Insurance Company Ltd. — offered a wide range of life reinsurance and retrocession, property and structured reinsurance to business clients around the world.
- RBC Insurance Services Inc. — provided functional and other support to RBC Insurance companies and also administered the creditor insurance products and services for individual and business clients of RBC Financial Group.
- Liberty Life Insurance Company and Business Men's Assurance Company of America — provided innovative personal insurance and wealth management through regional and independent broker dealers, national marketing organizations, RBC banking and investment channels, the Internet, other direct marketing channels and a field force of over 400 full-time sales agents in the United States.
- Liberty Insurance Services Corporation ("LIS") — in 2004 offered the insurance and financial services industry outsourcing services and administration software systems through its Business Process Outsourcing and Software Solutions divisions and served domestic, international and multinational insurers worldwide. On November 23, 2004 we announced that IBM agreed to acquire LIS. The transaction is expected to close by December 31, 2004, subject to the satisfaction of customary conditions including the receipt of regulatory approval. In addition, IBM and RBC Insurance have agreed to enter into a long-term agreement for IBM to perform key business processes for RBC Insurance's U.S. operations, including contact centre management, policy administration, claims management and payment receipt and reconciliation.

RBC Life Insurance Company acquired the Canadian operations of Provident Life and Accident Insurance Company, a subsidiary of UnumProvident Corporation (UNM: NYSE), in May 2004. The operations acquired are based in Burlington, Ont., and focus on the

underwriting, sales and servicing of individual and group income replacement products — known as living benefits — targeted at Canadian individuals and corporate customers through multiple distribution channels. As part of the deal, RBC Life Insurance Company also acquired Provident's significant claims operations located in Toronto. In May 2003, Liberty Life Insurance Company completed the acquisition of certain assets of Business Men's Assurance Company of America from the Generali Group, a Trieste, Italy-based insurer, for approximately U.S. $207 million. These assets comprised the operations of Business Men's Assurance Company of America and included the infrastructure for manufacturing variable insurance products as well as a closed block of approximately 135,000 policies.

The following are the principal companies that provided products and services under RBC Insurance in fiscal 2004: RBC Life Insurance Company, Liberty Life Insurance Company, Liberty Marketing Corporation, Liberty Insurance Services Corporation, Business Men's Assurance Company of America, Royal Bank of Canada Insurance Company Ltd., RBC General Insurance Company, RBC Travel Insurance Company, Assured Assistance Inc., and RBC Reinsurance (Ireland) Limited.

Effective November 1, 2004, our global insurance businesses, which include Canadian, U.S. and international insurance operations, became part of the new Canadian personal and business segment.

RBC Capital Markets — In fiscal 2004, the corporate and investment banking segment provided wholesale financial services to large corporate, government and institutional clients in North America and in specialized product and industry sectors globally. The segment had the following operating divisions:

- 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. In fiscal 2004, the Global Investment Banking division housed the corporate and investment banking businesses and offered a full range of credit and corporate finance products including debt and equity underwriting, mergers and acquisitions (M&A) advice and execution and financial sponsor/Private Investor coverage.

- Global Equity — This division provided expertise in research and equity sales and trading of North American and select international securities. The product offering included leading edge electronic trading systems as clients are increasingly demanding access to electronic execution services.

- Global Financial Products — In fiscal 2004, this division had business activities involving the origination, syndication, securitization, trading, and distribution of debt products globally. These products included loans, bonds, and derivatives at both the investment grade and sub-investment grade levels. As well, Global Financial Products was the centre of expertise for the proprietary trading activities of RBC Capital Markets. Alternative Investments was formed in June 2002 with a mandate to expand our wholesale asset management capabilities, which today includes structuring hedge fund transactions. In 2004, this business was moved into the Global Financial Products division. The alternative asset business provided non-traditional investment opportunities to high net worth individuals, corporations and

institutional clients. These investment options included private equity and hedge funds, and could extend to other vehicles such as Collateralized Debt Obligations.

- Global Treasury Services — This division, consisting of the money markets and foreign exchange businesses, provided global clients with foreign exchange, commodities, derivatives and interest rate products, as well as prime brokerage, currency risk management and advisory services. In fiscal 2004, these products and services were delivered through an extensive global sales and trading network, operating from global centres that include Toronto, London, New York, Sydney, Tokyo, Singapore, and our recently opened Hong Kong office**.** Global Treasury Services also delivered services through its Internet trading platform, FX Direct, and is a member of the multi-bank global trading platform, FXall. MMDirect, our electronic deposit system, joined FXDirect, expanding our e-trading platform.

- Global Credit — This division provided centralized management of all credit exposure associated with RBC Capital Markets loan portfolio. Global Credit's portfolio and transaction management specialists used sophisticated risk management and analytical tools to ensure the pricing on loans was commensurate with the associated risk and reflected the value of all products and services a client has with the bank.

In fiscal 2004, RBC Capital Markets was headquartered in Toronto and serviced its clients through a network of 30 offices worldwide, which included key centres of expertise in New York and London.

The following are the principal companies that provide products and services under RBC Capital Markets: Royal Bank of Canada **,** RBC Dominion Securities Inc., 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, and RBC Capital Markets Arbitrage S.A.

Effective November 1, 2004, the new global capital markets segment includes RBC Capital Markets as well as the business serving larger commercial clients that is being transferred from RBC Banking. The operations of Global Treasury Services and Global Financial Products will be merged into a new Global Markets division. Global Investment Banking will be combined with our equity sales and trading capabilities into Global Investment Banking Equity Markets. The newly formed Global Research division will combine our economics and research staff in all product areas, while Global Credit remains relatively unchanged.

RBC Global Services — In fiscal 2004, the transaction-processing segment offered specialized transaction-processing services to business, commercial, corporate, and institutional clients in domestic and selected international markets. Key businesses included global custody, investment administration, correspondent banking, cash management, payments and trade finance. The bank's 50% interest in the Moneris Solutions, Inc. joint venture with the Bank of Montreal for merchant card processing was reported under RBC Global Services. There were three business units in the segment:

- Institutional & Investor Services — delivered custodial and investment administration services, including foreign exchange and securities lending to corporate and institutional investors using a global sales force. Institutional and Investor Services was Canada's

largest custodian and the 9th largest custodian globally as measured by assets under administration. It operated from 12 locations throughout the world, with a global custody network spanning 79 markets.

- Global Financial Institutions — offered a comprehensive range of correspondent banking services to banks globally, and to broker-dealers within Canada. These services included cash management, payments and clearing. Global Financial Institutions managed over 1,500 bank relationships around the world.

- Treasury Management and Trade — provided cash management services to the small and medium enterprise, commercial, corporate and public sector segments across Canada using specialized sales teams. These clients were 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 were 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 companies that provided products and services under RBC Global Services in fiscal 2004: Royal Bank of Canada, Royal Trust Corporation of Canada, The Royal Trust Company, and RBC Global Services Australia Pty Limited.

Effective November 1, 2004, the Institutional and Investor Services and Global Financial Institutions divisions of RBC Global Services became part of the new global capital markets segment. The Treasury Management and Trade division became part of the new Canadian personal and business segment.

Competition — As the bank has entered and expanded into new lines of business, its competition has grown to include other banks, investment dealers, self-directed 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 the ‘Big Six’ Schedule I banks, 13 smaller domestic banks, about 25 independent trust companies, 50 foreign banks (as subsidiaries or foreign branches) almost 1300 credit unions and caisses populaires, 100 life insurance companies, 172 property and casualty insurers, about 100 independent investment dealers and over 61 independent retail mutual fund management companies.

In the competitive environment of fiscal 2004, the bank had number one or number two market shares in most businesses it operated in Canada. For example, its market share of residential mortgages and business loan balances were 15.12% and 11.30% respectively, at August 31, 2004 — the highest in Canada. In wealth management, the bank had the leading full service brokerage operation and the second largest Canadian self-directed broker, RBC Action Direct, as measured by assets under administration. The insurance operation was one of the top ten life insurance producers in Canada as measured by new individual policies issued, and was

also Canada's largest travel insurer based on premiums. In corporate and investment banking, RBC Capital Markets was a leading mergers and acquisitions advisor in Canada with transactions totalling $10 billion for fiscal 2004, and its foreign exchange business ranked among the top 15 in the world by reported revenues. The bank's transaction processing segment had the largest Canadian custody operations in Canada, as measured by assets under administration.

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 but also extremely competitive, comprised of both global and regional players and monoline service providers.

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 as at June 30, 2004 is ranked sixth by bank deposits in North Carolina, and fifteenth in bank deposits within its state banking footprint (North Carolina, South Carolina, Virginia, Georgia and Florida).

General Development of the Business — In 2001, the bank updated its master brand to exemplify its evolution. The brand name "RBC Financial Group" was added to capture the diverse companies and businesses that are part of the organization. The new brand also clearly defines the bank's future by signalling its growth strategy in North America and into niche markets around the world.

In 2002, the bank achieved objectives to consolidate and enhance returns from earlier purchases through cost synergies and revenue growth initiatives, in addition to small-targeted acquisitions limited to no more than $1 billion in total. Cross-enterprise leverage, which entails working across businesses and functions for the clients' benefit, became 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 have provided opportunities for applying knowledge across businesses and platforms to better serve the customers.

In 2003, the bank continued to expand in the U.S. in a very disciplined and focused manner. "Always earning the right to be our clients' first choice" was introduced as a new vision for the bank. It 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 contrive to focus on providing a better client experience across all distribution channels.

Effective November 1, 2004 the bank realigned its organizational structure with key objectives to:

- Focus more effectively on client service to accelerate revenue growth
- Control costs more aggressively and improve productivity

Effective November 1, 2004, the five prior business segments were realigned into three segments structured around client need and geographic location: (1) a Canadian personal and business segment, which combines our Canadian banking, investments and global insurance businesses, including Canadian, U.S. and international insurance operations; (2) a U.S. and international segment, which includes banking and investments in the U.S., banking and

brokerage in the Caribbean, and Global Private Banking internationally; and (3) a global capital markets segment that includes corporate banking, which serves corporate and larger commercial clients. The bank is integrating all systems and operating capabilities in a global technology and operations group. We will begin reporting our financial results under the new structure in the first quarter of fiscal 2005. The bank created a Chief Operating Officer position with responsibility for corporate strategy and all corporate functions.

Summarized in the following table are the bank's major acquisitions over the past three financial years:

BUSINESS	ACQUISITION	KEY CHARACTERISTICS
RBC Banking	Provident Financial Group Inc. — Florida Branch Network (2004)	• RBC Centura Bank acquired Florida operations of Ohio-based Provident Financial Group for approximately US$81 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)	• RBC Centura Banks, Inc. acquired 100% of the outstanding shares of Admiralty Bancorp, Inc. • 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)	• RBC Centura Bank acquired 100% of the outstanding shares of Eagle Bancshares, Inc. • Purchase price of US$149 million cash • Expansion of RBC Centura in Southeast 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
RBC Investments	William R. Hough & Co. (2004)	• RBC Dain Rauscher Inc., acquired St. Petersburg, Florida based William R. Hough & Co. for a purchase price of US$112 million. • A privately held full-service investment firm that specializes in fixed income sales, trading and underwriting primarily in the Southeast U.S. • Creates a platform to expand RBC Dain Rauscher municipal bond underwriting services in the Southeast and complement other RBC businesses throughout the United States
	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.

RBC Investments	Jones & Babson Inc. (Business Men's Assurance Company of America's Mutual Fund company) (2003)	• Royal Bank of Canada acquired the Mutual Fund Company, along with the U.S. direct life operations of Business Men's Assurance Company of America. • 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)	• Royal Bank of Canada acquired assets of Barclays' private banking operations in the Americas. • 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
RBC Insurance	Canadian operations of Provident Life and Accident Insurance Company, a subsidiary of UnumProvident Corporation (2004)	• Under the terms of the deal, RBC Life Insurance Company assumed UnumProvident's Canadian policy liabilities and assets with the same approximate fair value. • The acquisition makes RBC Insurance the number one provider of individual living benefits products in Canada and provides a considerable position in group long term disability insurance. • It also expands our distribution network from 7,000 to 17,000 independent brokers who are affiliated with producer groups, financial planning firms and stock brokerage firms.
	Business Men's Assurance Company of America — U.S. variable life insurance business (2003)	• Royal Bank of Canada acquired U.S. direct life insurance and mutual fund operations of Business Men's Assurance Company of America, along with the mutual fund company, Jones & Babson • Total consideration was approximately US$207 million (of which Business Men's Assurance was US$188 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

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 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 Superintendent of Financial Institutions (the "Superintendent") is responsible to the Minister of Finance (the "Minister") for the supervision of the bank and its Canadian trust and loan company and insurance subsidiaries. The Superintendent is required, at least once a year to, 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 Superintendent, 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 that apply to them and to investigate consumer complaints relating to alleged violations of the consumer provisions. 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, Trust and Loan Companies Act and Insurance Companies Act.

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 of directors and senior management of the bank to establish standards of business conduct and ethical behaviour and objectives in respect of the strategic management of the business of the bank. The board of directors is also required to evaluate the financial results, to have developed an understanding of, and have processes to deal with, the risks inherent in the business of the bank — including credit, market, structural, fiduciary and operational risk — and to ensure appropriate and effective liquidity, funding and capital management. Senior management and directors of the bank must acknowledge their responsibilities in that regard and attest to the institution’s ability to meet such standards in its operations. The bank’s boards of directors must periodically report to the 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.

The activities of bank subsidiaries acting as securities brokers, dealers (including investment dealers and mutual fund dealers) and advisors (including investment counsel and portfolio managers) are regulated in Canada under provincial securities laws and, in some cases, by the rules of the applicable self regulatory organization (the Investment Dealers Association of Canada for investment dealers and the Mutual Fund Dealers Association of Canada for mutual fund dealers).

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.

Minimum capital requirements for subsidiaries that are securities-dealers and 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 investment dealers in Canada and the Mutual Fund Dealers Association of Canada sets minimum capital requirements for subsidiaries that are mutual fund dealers in Canada.

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 bank is, or the payment would cause the bank to be in contravention of any direction of the Superintendent respecting the maintenance of adequate capital and liquidity. The 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 either of its subsidiaries, RBC Capital Trust (a closed-end trust) or RBC Capital Trust II (an open-end trust), 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 has also agreed that if, on any day that the bank reports financial results for a financial quarter, (a) it does not report cumulative consolidated net income (as determined in accordance with Canadian GAAP or such other accounting principles with which the bank is

then required to comply for the purpose of preparing financial statements) for the immediately preceding four quarters; and (b) during the immediately preceding financial quarter the bank failed to declare any cash dividends on all of its outstanding preferred and common shares, the bank may defer payments of interest on the Series 2014-1 Reset Subordinated Notes. During any period while interest is being deferred, (i) interest will accrue on these notes but will not compound; (ii) the bank may not declare or pay dividends (except by way of stock dividend) on, or redeem or repurchase, any of its preferred or common shares; and (iii) the bank may not make any payment of interest, principal or premium on any debt securities or indebtedness for borrowed money issued or incurred by the bank that rank subordinate to these notes.

The bank's medium-term goals (three to five years) include a dividend payout ratio of 40% to 50%. The dividend payout ratio is common dividends as a percentage of net income after preferred dividends.

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

There are limited additional powers that enable a bank to engage in other businesses, including information 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.

A bank may carry on any aspect of the business of insurance, other than the underwriting of insurance, outside Canada and in respect of risks outside Canada. A bank may not act as agent for any person in the placing of insurance and may not undertake the business of insurance except as permitted by the Bank Act and its regulations. A bank may administer and provide advice in relation to certain authorized types of insurance as defined by regulation. In addition, a

bank may provide advice and promote types of insurance that are not authorized types subject to constraints prescribed by regulation.

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 information services, investment counselling and portfolio management, mutual fund, mutual fund distribution, real property brokerage, real property and service entities. Certain substantial investments may be made only with the prior approval of the Minister or the Superintendent. The regulations relating to specialized financing and information processing activities provide additional flexibility for banks to make investments in entities engaging in non-financial activities subject to certain limits on the exposure of the bank to these investments (i.e. limits on the book value of the shares held by the bank in the investment and on the aggregate value of the loans made by the bank to the investment entity).

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.

The Bank Act prohibits a person from having a “significant” interest in shares of the bank if that person 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. It also prohibits voting of shares beneficially owned (directly or through controlled entities) by such a person 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.

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 (Canada) implements measures to assist in detecting, deterring, and facilitating the investigation of, money laundering and terrorist financing offences. This Act and associated regulations impose reporting, record keeping and “know your customer” obligations on certain financial entities, including banks, trust companies, 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 transactions 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 (the “Code”) and the United Nations Suppression of Terrorism Regulations (“UNSTR”) prohibits financial institutions (among many others) from knowingly dealing in property of, or providing financial services to, listed persons 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.

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GOVERNMENT SUPERVISION AND REGULATION — UNITED STATES

The bank's New York branches and Miami branch are licensed and supervised as federal branches by the Office of the Comptroller of the Currency (the "Comptroller"). In general, such a branch may 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 and Miami branch may not take domestic retail deposits and their deposits are not insured by the Federal Deposit Insurance Corporation ("FDIC").

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 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. 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 assets of the bank in each state in which it maintains a branch. 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 System (the "Federal Reserve"). Under the IBA and related regulations of the Federal Reserve, the bank generally may not open a branch in the U.S., and it may not 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, and the bank may not open an agency in the U.S. without providing prior written notice to the Federal Reserve. The regulations of the Federal Reserve grant "general consent" for the bank to open a representative office in the U.S. so long as the bank remains subject to the Bank Holding Company Act of 1956 and consolidated comprehensive supervision in its home country.

The bank may 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.

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 otherwise permissible, including insurance underwriting, securities underwriting and dealing and making merchant banking investments;

- allows insurers and other financial services companies to acquire banks; and

- removed 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 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" and must have at least a "satisfactory" rating under the Community Reinvestment Act of 1977 (the "CRA").

The capital requirements for financial holding companies are set forth in Federal Reserve regulations. Under these regulations, 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 as a financial holding company, the general requirements are a minimum Tier 1 risk-based capital ratio of 6% and a minimum 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, 2004.

For a non-U.S. bank to be deemed to be "well managed" for U.S. bank regulatory purposes, the bank must have received at least a "satisfactory" composite regulatory rating of its U.S. branch operations in its last examination, the bank's home country supervisor must consent to it expanding its activities in the U.S. to include activities permissible for a financial holding company 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 in its last examination.

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, without the prior approval of the Federal Reserve, engage in any activity, or acquire and retain the shares of any company (other than a U.S. depository institution or foreign bank) engaged in any activity, that is either (1) financial in nature or incidental to such financial activity (as determined by the Federal Reserve in consultation with the Department of the Treasury) or (2) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as determined solely by the Federal Reserve). Under the Gramm-Leach-Bliley Act, activities that are financial in nature include insurance agency and underwriting activities, 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" activities, subject to certain limitations, including that the financial holding company makes the investment with the intention of limiting its 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 and, in some cases, lose the ability to continue current activities that are not generally permissible for bank holding companies. If the bank ceased to qualify as a financial holding company, 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 a proper incident thereto.

The Gramm-Leach-Bliley Act also modified U.S. law related to financial privacy. The financial privacy provisions generally prohibit financial institutions in the U.S., including the bank, RBC Centura Bank, RBC Capital Markets 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. Under the Gramm-Leach-Bliley Act, states are permitted to adopt more restrictive privacy laws.

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), 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 or all or substantially all of the assets of a bank or bank holding company without the prior approval of the Federal Reserve. In reviewing applications seeking approval of merger and acquisition transactions, the Federal Reserve will consider, among other things, the competitive effect and public benefits of the transaction, the capital position of the combined organization, the applicant's performance record under the CRA and the effectiveness of the subject organizations in combating money laundering activities.

Pursuant to Federal Reserve policy, as a bank holding company and financial holding company, 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 subject to the Federal Deposit Insurance Act (the "FDIA"), which requires, among other things, the federal bank regulatory agencies to take "prompt corrective action" in respect of depository institutions that do not meet minimum capital requirements. The FDIA establishes the following five capital tiers: "well capitalized", "adequately capitalized",

“undercapitalized”, “significantly undercapitalized” and “critically undercapitalized”. A depositary institution’s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. Under the FDIA, a depository institution is generally prohibited from making a capital distribution (including payment of a dividend) or paying a management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

RBC Centura Bank is also subject to 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 record 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”.

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, 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 maintain appropriate policies, procedures and controls to prevent, detect and report individuals and entities involved in money laundering and the financing of terrorism and to verify the identity of their customers. 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, reputational and other 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 (including the bank and its U.S. branches) 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 limitations described above are applicable to U.S. branches 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 subject transactions between a U.S. branch of a foreign bank and a company held under merchant banking authority to the transaction limitations.

U.S. Regulation of Broker-Dealer Subsidiaries — The bank's U.S.-registered broker-dealer subsidiaries are RBC Capital Markets Corporation ("RBCCM"), RBC Capital Markets Arbitrage, S.A. ("RBCCMA") and RBC Dain Rauscher Inc. ("RBC Dain Rauscher"). Each of these broker-dealer subsidiaries is regulated by the U.S. Securities and Exchange Commission (the "SEC") and state securities regulators, as well as the National Association of Securities Dealers, Inc. and other self-regulatory organizations. In addition, RBCCM and RBCCMA are regulated by the U.S. Commodity Futures Trading Commission and RBCCM and RBC Dain Rauscher are regulated by the New York Stock Exchange.

The bank's U.S.-registered broker-dealer subsidiaries are subject to a comprehensive system of regulation that is independent of and substantively different from banking regulation. In particular, such 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 — The bank's U.S. insurance subsidiaries are Liberty Life Insurance Company, Liberty Insurance Services Corporation and Business Men's Assurance Company of America ("BMA"). Liberty Life Insurance Company and Liberty Insurance Services Corporation are subject to regulation by the South Carolina Department of Insurance (the "SC Department") and 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 regulation, supervision and administration by the SC Department and the insurance regulators in the other states and jurisdictions in which Liberty Insurance Services Corporation transacts business relates to, among other things, the licensing, bonding, fiduciary obligations, compensation and administrative activities of Liberty Insurance Services Corporation. The SC Department also periodically examines the affairs of Liberty Life Insurance Company and Liberty Insurance Services Corporation (and, at its option, their affiliates) and requires both entities to file annual and other reports relating to its financial condition and other matters.

BMA, which was acquired by Liberty Life Insurance Company in 2003, is subject to regulation by the Missouri Department of Insurance (the "MO Department") and the various states and jurisdictions in which it transacts business. The MO Department regulates, supervises and administers BMA in a manner that is similar in scope to the SC Department's regulation, supervision and administration of Liberty Life Insurance Company. BMA sells variable insurance products that are subject to regulation by the SEC and are also subject to state securities laws and regulations. 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 BMA. It and its subsidiaries and affiliates are therefore subject to the South Carolina and Missouri state insurance holding company laws. Those laws, as well as certain other laws, establish standards and require 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 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. 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.

U.S. Mortgage Subsidiary — The bank's U.S. nonbank mortgage subsidiary is RBC Mortgage Company. This subsidiary is subject to regulation by various U.S. federal and state authorities. The rules and regulations of these authorities impose licensing obligations on RBC Mortgage Company, establish standards for processing, underwriting and servicing mortgage loans, prohibit discrimination and restrict certain loan terms. In addition, RBC Mortgage Company's mortgage origination activities are subject to the Equal Credit Opportunity Act, Truth-in-Lending Act, Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act and Home Ownership Equity Protection Act and the regulations promulgated thereunder, as well as to other federal and state laws. These laws prohibit discrimination, require maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution and income level, require disclosure of certain basic information to mortgagors concerning credit and settlement costs and limit payment for settlement services to the reasonable value of the services rendered.

U.S. Legislative and Regulatory Initiatives — Various legislative and regulatory initiatives are from time to time introduced in the U.S. Congress and state legislatures, as well as by U.S. federal and state regulatory authorities and self-regulatory organizations. The bank cannot determine the ultimate effect that any such potential legislation, if enacted, would have upon its financial condition or operations.

DESCRIPTION OF CAPITAL STRUCTURE

General Description

The bank's authorized share capital consists of an unlimited number of common shares without nominal or par value and an unlimited number of first preferred shares and second preferred shares without nominal or par value, issuable in series, which classes may be issued for a maximum consideration of $10 billion and $5 billion, respectively. The following summarizes certain provisions of the bank's common shares and preferred shares. This summary is qualified in its entirety by the by-laws of the bank and the actual terms and conditions of such shares.

Common Shares

The holders of the bank's common shares are entitled to notice of, to attend and to one vote per share at all meetings of the bank's shareholders, except meetings at which only holders of a specified class, other than common shares, or series of shares are entitled to vote. The holders of the bank's common shares are entitled to receive dividends as and when declared by the board of directors, subject to the preference of the bank's preferred shares. After payment to the holders of the bank's preferred shares of the amount or amounts to which they may be entitled, and after payment of all outstanding debts, the holders of the common shares will be

entitled to receive the remaining property of the bank upon liquidation, dissolution or winding-up.

First Preferred Shares as a Class

(a) Issuable in Series

The bank may issue first preferred shares, from time to time, in one or more series with such series rights, privileges, restrictions and conditions as the board of directors may determine by resolution. Currently, the bank has outstanding Non-Cumulative Series N, Non-Cumulative Series O, Non-Cumulative Series P and Non-Cumulative Series S first preferred shares. Each of the outstanding series of first preferred shares are, subject to the consent of OSFI and the requirements of the Bank Act, redeemable by the bank or exchangeable by the bank into common shares. In addition, on or after August 24, 2008, the Non-Cumulative Series N first preferred shares are convertible by the holders into common shares of the bank.

(b) Priority

The first preferred shares of each series rank on a parity with the first preferred shares of every other series and are entitled to preference over the bank's second preferred shares and common shares and over any other shares ranking junior to the first preferred shares with respect to the payment of dividends and in the distribution of property in the event of the liquidation, dissolution or winding-up of the bank.

(c) Creation and Issue of Shares

Pursuant to the Bank Act, the bank may not, without approval of the holders of the first preferred shares, create any other class of shares ranking equal with or superior to the first preferred share. In addition, the bank may not, without the prior approval of the holders of the first preferred shares as a class given as specified below under "— Shareholder Approvals" (in addition to such approvals as may be required by the Bank Act or any other legal requirement), (i) create or issue any shares ranking in priority to the first preferred shares or (ii) create or issue any additional series of first preferred shares or any shares ranking *pari passu* with the first preferred shares unless at the date of such creation or issuance all cumulative dividends up to and including the dividend payment for the last completed period for which such cumulative dividends are payable have been declared and paid or set apart for payment in respect of each series of cumulative first preferred shares then issued and outstanding and any declared and unpaid non-cumulative dividends have been paid or set apart for payment in respect of each series of non-cumulative first preferred shares then issued and outstanding. Currently, there are no outstanding first preferred shares which carry the right to cumulative dividends.

(d) Voting Rights

The holders of the first preferred shares are not entitled to any voting rights as a class except as provided below or by law or with respect to the right to vote on certain matters as specified below under "— Shareholder Approvals".

(e) Shareholder Approvals

The approval of all amendments to the provisions attaching to the first preferred shares as a class and any other approval to be given by the holders of the first preferred shares may be given in writing by the holders of not less than all of the outstanding first preferred shares or by a resolution carried by the affirmative vote of not less than 66 2/3% of the votes cast at a meeting of holders of first preferred shares at which a quorum of the outstanding first preferred shares is represented. A quorum at any meeting of holders of first preferred shares is 51% of the shares entitled to vote at such meeting, except that at an adjourned meeting there is no quorum requirement.

Second Preferred Shares as a Class

(a) Issuable in Series

The bank may issue second preferred shares, from time to time, in one or more series with such series rights, privileges, restrictions and conditions as the board of directors may determine by resolution. There are no series of second preferred shares of the bank currently outstanding.

(b) Priority

The second preferred shares rank junior to the first preferred shares. The second preferred shares of each series rank on a parity with the second preferred shares of every other series and are entitled to preference over the bank's common shares and over any other shares ranking junior to the second preferred shares with respect to the payment of dividends and in the distribution of property in the event of the liquidation, dissolution or winding-up of the bank.

(c) Creation and Issue of Shares

Pursuant to the Bank Act, the bank may not, without approval of the holders of the second preferred shares, create any other class of shares ranking equal with or superior to the second preferred share. In addition, the bank may not, without the prior approval of the holders of the second preferred shares as a class given as specified below under "— Shareholder Approvals" (in addition to such approvals as may be required by the Bank Act or any other legal requirement), (i) create or issue any shares ranking in priority to the second preferred shares or (ii) create or issue any additional series of second preferred shares or any shares ranking *pari passu* with the second preferred shares unless at the date of such creation or issuance all cumulative dividends up to and including the dividend payment for the last completed period for which such cumulative dividends are payable have been declared and paid or set apart for payment in respect of each series of cumulative second preferred shares then issued and outstanding and any declared and unpaid non-cumulative dividends have been paid or set apart for payment in respect of each series of non-cumulative second preferred shares then issued and outstanding. Currently, there are no outstanding second preferred shares which carry the right to cumulative dividends.

(d) Voting Rights

The holders of the second preferred shares are not entitled to any voting rights as a class except as provided below or by law or with respect to the right to vote on certain matters as specified below under "— Shareholder Approvals".

(e) Shareholder Approvals

The approval of all amendments to the provisions attaching to the second preferred shares as a class and any other approval to be given by the holders of the second preferred shares may be given in writing by the holders of not less than all of the outstanding second preferred shares or by a resolution carried by the affirmative vote of not less than 66 2/3% of the votes cast at a meeting of holders of second preferred shares at which a quorum of the outstanding second preferred shares is represented. A quorum at any meeting of holders of second preferred shares is 51% of the shares entitled to vote at such meeting, except that at an adjourned meeting there is no quorum requirement.

DIVIDENDS

The bank has had an uninterrupted history of paying dividends on its common shares and on each of its outstanding series of first preferred shares. The following table sets forth the dividends paid or payable on the bank's common shares and each outstanding series of first preferred shares in each of the last three most recently completed fiscal years.

		First Preferred Shares			
	Common Shares	Series N	Series O	Series P	Series S
2002	$ 1.52	$1.175	$1.375	$1.4375	$1.525
2003	$ 1.72	$1.175	$1.375	$1.4375	$1.525
2004	$ 2.02	$1.175	$1.375	$1.4375	$1.525

The declaration and payment of future dividends and the amount thereof will be subject to the discretion of the bank's board of directors, and will be dependent upon the results of operations, financial condition, cash requirements and future prospectus of, and regulatory restrictions on the payment of dividends by, the bank and other factors deemed relevant by the board of directors.

The bank's dividend payout ratio (common share dividends as a percentage of net income less preferred share dividends) goal was increased in 2004 to a range of 40-50% from the earlier goal of 35-40%.

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MARKET FOR SECURITIES

Common shares of the bank are listed on the TSX in Canada, the NYSE in the U.S.A. and the SWX in Switzerland.

Preferred shares are listed on the TSX.

The following table sets out the closing price range and trading volumes of the common shares on the TSX and the NYSE for the periods indicated:

	TSX		NYSE	
COMMON SHARES	**Closing Price**	**Volumes**	**Closing Price**	**Volumes**
	($CAN)	**(in 000s)**	**($US)**	**(in 000s)**
2003				
November	61.70	27,432,450	47.88	1,096,400
December	61.80	38,320,687	47.68	1,422,000
2004				
January	63.19	38,393,947	47.52	1,316,300
February	63.45	34,591,813	47.55	1,193,200
March	62.55	53,483,352	47.70	1,625,700
April	60.95	28,488,391	44.40	1,258,000
May	59.06	28,768,046	43.35	1,017,300
June	59.13	27,584,366	44.33	907,300
July	61.50	21,591,860	46.31	1,012,600
August	59.42	24,985,635	45.29	1,199,800
September	59.95	29,280,919	47.28	831,100
October	63.40	27,769,799	52.03	1,249,900

The following table sets out the closing price range and trading volumes of the Preferred Share Series N on the TSX for the periods indicated:

	TSX	
	Closing Price	**Volumes**
	($CAN)	**(in 000s)**
2003		
November	26.25	76,961
December	26.54	57,319
2004		
January	26.11	1,193,585
February	26.64	126,725
March	26.78	648,597
April	25.75	1,214,903
May	25.96	83,071
June	26.00	73,352
July	25.80	1,030,303
August	26.17	214,304
September	26.19	76,640
October	26.24	1,020,157

The following table sets out the closing price range and trading volumes of the Preferred Share Series O on the TSX for the periods indicated:

	TSX	
	Closing Price	Volume
	($CAN)	(in 000s)
2003		
November	26.15	100,211
December	26.56	143,625
2004		
January	26.15	43,125
February	26.34	52,085
March	26.85	153,310
April	25.25	138,816
May	25.74	119,034
June	25.26	62,888
July	25.50	69,770
August	25.75	93,225
September	26.10	78,376
October	26.24	64,440

The following table sets out the closing price range and trading volumes of the Preferred Share Series P on the TSX for the periods indicated:

	TSX	
	Closing Price	Volumes
	($CAN)	(in 000s)
2003		
November	26.25	40,058
December	26.41	58,990
2004		
January	26.74	111,552
February	26.45	56,334
March	26.82	72,920
April	25.75	165,765
May	25.30	61,695
June	25.85	58,100
July	25.90	23,127
August	26.20	39,335
September	26.00	49,623
October	25.89	85,000

The following table sets out the closing price range and trading volumes of the Preferred Share Series S on the TSX for the periods indicated:

	TSX	
	Closing Price ($CAN)	Volumes (in 000s)
2003		
November	27.95	106,731
December	27.96	256,416
2004		
January	28.00	121,160
February	27.86	111,810
March	28.21	703,425
April	27.26	770,075
May	26.37	187,545
June	27.00	132,984
July	27.80	131,688
August	27.51	109,304
September	27.50	169,955
October	27.50	171,587

Prior Sales

Prior Sales of Subordinated Debentures of Royal Bank of Canada

The following chart sets out all issuances of subordinated debentures of the Royal Bank of Canada during the 12 months ending October 31, 2004:

Date Issued	Issue Price per $1,000 Principal Amount of Debentures	Aggregate Issue Price (millions)
November 3, 2003	$ 1,000.00	$ 1,000.00
January 27, 2004	999.64	499.82
April 13, 2004	1,000.00	1,000.00
June 18, 2004	1,000.00	600.00
Total		**3,099.82**

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SUBORDINATED DEBT AND PREFERRED STOCK RATINGS

Each subordinated debt and preferred stock rating received from an approved rating organization.

RATING AGENCY	RATING	RANK*
Moody's Investors Service — (New York)		
Bank Subordinated Debentures	Aa3	(4) of 21
Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. The modifier 3 indicates a ranking in the lower end of that rating category.		
Rating Outlook	Stable	
Means rating is not likely to change		
Standard & Poor's — (New York)		
Bank Subordinated Debentures	A+	(5) of 22
An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitments on the obligation is still strong. The plus sign shows relative standing within this rating category.		
Preferred Stock	A	(4) of 22
An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitments on the obligation is still strong.		
Rating Outlook	Negative	
Indicates there is a reasonable probability that the rating may be lowered.		
Dominion Bond Rating Service — (Toronto)		
Bank Subordinated Debentures	A (high)	(5) of 26
Long term debt rated A is of satisfactory quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of AA rated entities. While A is a respectable rating, entities in this category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher rated securities		
Preferred Stock	Pfd-l (low)	(3) of 26
Preferred shares rated Pfd-1 are of superior credit quality, and are supported by entities with strong earnings and balance sheet characteristics		
Rating Outlook	Stable	
Means rating is not likely to change		
Fitch Ratings — (New York)		
Bank Subordinated Debentures	AA-	(4) of 24
AA 'ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. "-" denotes relative status within major rating category.		
Rating Outlook	Negative	
Indicates there is a reasonable probability of a ratings downgrade.		

* Numbers in brackets indicate the rank of the rating, with 1 being the highest, 2 being the next, etc...

What the ratings address:

Subordinated Debentures: Credit ratings are the current opinion of the rating agency on creditworthiness of an obligor with respect to a specific financial obligation and a specific class of financial obligation for a specific financial program. Ratings take into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated.

Preferred Stock: Preferred stock ratings address the issuer's capacity and willingness to pay dividends and principal, in case of limited life preferreds, on a timely basis. They address the likelihood of timely payment of dividends, notwithstanding the legal ability to pass on or defer a dividend payment.

Rating Outlook: Rating Outlook assesses the potential direction of a long-term credit rating over the intermediate to longer term. In determining a Rating Outlook consideration is given to any changes in the economic and fundamental business conditions. An Outlook is not necessarily a precursor of a rating change.

The issue credit rating is not a recommendation to purchase sell or hold a financial obligation inasmuch as it does not comment as to market price or suitability for a particular investor. Ratings are subject to revision or withdrawal at any time by the rating organization.

RISK FACTORS

A discussion of risks affecting the bank and its business appears under the heading "Factors that may affect future results" on pages 71 to 72 and 71A to 72A of the bank's management's discussion and analysis for the year ended October 31, 2004 which discussion is incorporated by reference herein. The bank's management's discussion and analysis for the year ended October 31, 2004 is available on our website at rbc.com, on the Canadian Securities Administrators' website at sedar.com and on the EDGAR section of the United States Securities and Exchange Commission's website at sec.gov.

LEGAL PROCEEDINGS

A description of certain legal proceedings to which the bank is a party appears under the heading "Litigation" in Note 21 to the consolidated financial statements on pages 105 and 105A of the bank's audited annual financial statements for the year ended October 31, 2004. The bank's audited annual financial statements for the year ended October 31, 2004 are available on our website at rbc.com, on the Canadian Securities Administrators' website at sedar.com and on the EDGAR section of the United States Securities and Exchange Commission's website at sec.gov.

DIRECTORS AND EXECUTIVE OFFICERS

Directors — The following are the directors of the bank and their municipalities of residence, as at December 20, 2004 :

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[1, 3] (1988)	Toronto	Founder and Senior Chairman, McDonald's Restaurants of Canada Limited
Douglas T. Elix[2, 4] (2000)	Ridgefield, Connecticut	Senior Vice-President and Group Executive, Sales & Distribution, IBM Corporation
John T. Ferguson[3, 4] (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[3, 4] (1991)	Quebec City	Senior Partner, Desjardins Ducharme Stein Monast
Jacques Lamarre[1, 2] (2003)	Montreal	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[3, 4] (1996)	Calgary	Chairman of the Board, Royal Bank of Canada Chairman of the Board, EnCana Corporation
Robert B. Peterson[1,4] (1992)	Toronto	Company Director
J. Pedro Reinhard[1, 2] (2000)	Midland, Michigan	Executive Vice-President and Chief Financial Officer, The Dow Chemical Company
Cecil W. Sewell, Jr. (2001)	Raleigh, North Carolina	Chairman, RBC Centura Banks, Inc.
Kathleen P. Taylor[1] (2001)	Toronto	President, Worldwide Business Operations, Four Seasons Hotels Inc.
Victor L. Young[2, 3] (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, 1999, 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 May 2004 was Senior Vice-President & Group Executive, 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; 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. 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.; 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. J. Pedro 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.

Mr. L. Yves Fortier is a director of Nortel Networks Corporation and Nortel Networks Limited (collectively, "Nortel Networks"). The directors, officers and other current and former employees of Nortel Networks are currently subject to management cease trade orders issued by certain Canadian securities regulators on or about May 31, 2004. The management cease trade orders were imposed in response to the failure by Nortel Networks to file certain financial statements with such Canadian securities regulators.

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Executive officers — The following are the executive officers and their municipalities of residence as at December 20, 2004:

Name	Title	Municipality of Residence
Peter Armenio	Group Head U.S. and International	Toronto, ON, Canada
Elisabetta Bigsby	Group Head Transformation Office and Human Resources	Toronto, ON, Canada
Janice R. Fukakusa	Chief Financial Officer	Toronto, ON, Canada
Martin J. Lippert	Group Head Global Technology And Operations	Mississauga, ON, Canada
Gordon M. Nixon	President and Chief Executive Officer	Toronto, ON, Canada
Barbara G. Stymiest	Chief Operating Officer	Toronto, ON, Canada
W. James Westlake	Group Head Personal and Business Clients Canada	Oakville, ON, Canada
Charles M. Winograd	Group Head Global Capital Markets	Toronto, ON, Canada

Since November 1, 1999 the executive officers, other than Barbara G. Stymiest, have been engaged in various capacities in the affairs of the bank, and its affiliates. Prior to joining the bank, Barbara G. Stymiest was the Chief Executive Officer and President of TSX Inc. since October 1999.

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	768
Royal Trust Corporation of Canada	Toronto, Ontario, Canada	786
The Royal Trust Company	Montreal, Quebec, Canada	612
Royal Mutual Funds Inc.	Toronto, Ontario, Canada	5
RBC Capital Trust	Toronto, Ontario, Canada	699
RBC Capital Trust II	Toronto, Ontario, Canada	2
RBC Technology Ventures Inc.	Toronto, Ontario, Canada	22
RBC Capital Partners Limited	Toronto, Ontario, Canada	30
RBC Dominion Securities Limited (4)	Toronto, Ontario, Canada	1,015
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	14,688
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 Holding 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 Action Direct Inc.	Richmond Hill, Ontario, Canada	
RBC Asset Management Inc.	Toronto, Ontario, Canada	
Royal Bank Realty Inc.	Montreal, Quebec, Canada	
R.B.C. Holdings (Bahamas) Ltd.	Nassau, Bahamas	
RBC Caribbean Investments 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 USA Holdco Corporation(2)	New York, New York, U.S.A.	
RBC Dain Rauscher Corp. (2)	Minneapolis, Minnesota, U.S.A.	
RBC Capital Markets Corporation	New York, New York, U.S.A.	
RBC Insurance Holding (USA) Inc.	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)	Wilmington, Delaware, 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.	11
RBC Centura Banks, Inc. (5)	Rocky Mount, North Carolina, U.S.A.	3,870
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 Investments Holdings (USA) Inc.	Wilmington, Delaware, U.S.A.	72
RBCF L. P. (2)	Wilmington, Delaware, U.S.A.	239
Royal Bank of Canada Financial Corporation	St. Michael, Barbados	3
RBC Finance B.V.	Amsterdam, Netherlands	2,449
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	6
RBC Global Services Australia Pty Limited	Sydney, New South Wales, Australia	40

(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 USA Holdco Corporation, RBC Dain Rauscher Corp. and Prism Financial Corporation, which are incorporated under the laws of the state of Delaware, U.S.A. and RBCF L.P. which is incorporated 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 3.06% and Prism Financial Corporation owns 6.91% of RBC Centura Banks, Inc.
(6) RBC Alternative Assets, Inc. owns 1% of RBC Alternative Assets, L.P.

AUDIT COMMITTEE

Audit Committee Mandate

The mandate of the audit committee is attached as Appendix A to this Annual Information Form.

Composition of Audit Committee

The audit committee of the bank consists of Robert B. Peterson (chair) and George A. Cohon, Jacques Lamarre, J. Edward Newall, J. Pedro Reinhard and Kathleen P. Taylor. Each member of the audit committee is independent and none receives, directly or indirectly, any compensation from the bank other than for service as a member of the board of directors and its committees. All members of the audit committee are financially literate as defined under Multilateral Instrument 51-102 — *Audit Committees*. In considering the criteria for determining financial literacy, the board looks at the ability of a director to read and understand a balance sheet, an income statement and a cash flow statement of a financial institution.

Relevant Education and Experience of Audit Committee Members

In addition to each member's general business experience, the education and experience of each audit committee member that is relevant to the performance of his or her responsibilities as an audit committee member is as follows: Mr. Peterson is retired Chairman and Chief Executive Officer of Imperial Oil Limited and has been a member of the bank's audit committee for 5 years. Mr. Cohon is the Founder and Senior Chairman and director of McDonald's Restaurants of Canada Limited. He is also on the board of a number of companies, including Royal Trust Corporation of Canada, The Royal Trust Company and Astral Media Inc. Mr. Lamarre has been the chief executive officer of SNC-Lavalin Inc. for eight years and was a director of Canadian Pacific Railway Limited for three years. He has also completed Harvard university's Executive Development Program. Mr. Newall is the Chairman of NOVA Chemicals and served as the Chief Executive Officer for seven years before retirement. Mr. Newall is also the Chairman of Canadian Pacific Railway Limited and was the Chief Executive Officer of DuPont Canada Inc. for 13 years. Mr. Reinhard has been the chief financial officer of The Dow Chemical Company for 8 years and is a member of the audit committees of The Coca-Cola Company and the bank. Mr. Reinhard is also a past chairman of the CFO Council Conference Board. Ms. Taylor is the President, Worldwide Business Operations of Four Seasons Hotels Inc. and has been a member of the bank's audit committee for four years. Ms. Taylor obtained a Masters of Business Administration from York University.

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. The audit committee has adopted a policy that prohibits the bank from engaging auditors for "prohibited" categories of non-audit services and requires pre-approval by the audit committee of audit services and other services within permissible categories of non-audit services.

Auditors' Fees

Deloitte & Touche LLP has served as one of the bank's auditing firms for the previous seven years and became the bank's sole auditor in September 2003. Fees payable for the years ended October 31, 2004 and October 31, 2003 to Deloitte & Touche LLP and its affiliates are $18.8 million and $22.4 million. Fees payable to Deloitte & Touche LLP and its affiliates in 2004 and 2003 are detailed below.

	Year ended October 31, 2004	Year ended October 31, 2003
	(millions)	
Audit fees	$ 16.1	$ 16.5
Audit-related fees	2.0	1.4
Tax fees	0.4	1.6
All other fees	0.3	2.9
	$ 18.8	$ 22.4

PricewaterhouseCoopers LLP also served as one of the bank's auditing firms until September 23, 2003. Up to its resignation on September 23, 2003, fees payable to PricewaterhouseCoopers LLP and its affiliates were $11.7 million. For 2003, fees payable to Deloitte & Touche LLP and PricewaterhouseCoopers LLP were $34.1 million in total.

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 annual financial statements of the bank and its subsidiaries 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 not required by statute or regulation;
- 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 bank's various pension plans and charitable foundations;
- the audits of various trusts and other entities as required in connection with the securitization of credit cards and mortgage loans; and
- the audit of certain special purpose vehicles relating to complex structured products.

Tax fees

Tax fees were paid for tax compliance services including the review of original and amended tax returns, assistance with questions regarding tax audits, the preparation of employee tax returns under the bank's expatriate tax services program and assistance in completing routine tax schedules and calculations.

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:

- French translation of the annual consolidated financial statements and management's discussion and analysis for the year ended October 31, 2003 and October 31, 2004; 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; certain sections of the bank's Annual Report to Shareholders; and financial statements of certain of the bank's subsidiaries; and

- business recovery services where the auditor: acts as privately appointed receiver and manager pursuant to the terms of a security instrument held by the bank or a syndicate of banks; conducts a business review of a debtor on behalf of the bank; or acts as monitor under private appointment.

TRANSFER AGENT AND REGISTRAR

In Canada, Computershare Trust Company of Canada is the transfer agent and registrar for the bank's common shares and the bank's Preferred Shares Series N, Series O, Series P and Series S at its principal offices in the cities of: Halifax, Nova Scotia; Montreal, Quebec; Toronto, Ontario; Winnipeg, Manitoba; Calgary, Alberta; and Vancouver, BC.

In the United States the Bank of New York is the co-transfer agent with offices in New York, New York.

In the United Kingdom, Computershare Services PLC is the co-transfer agent with offices in Bristol, England.

EXPERTS

The bank's auditor is Deloitte & Touche LLP. Prior to the fiscal year ended October 31, 2003, Deloitte & Touche LLP and PricewaterhouseCoopers LLP served jointly as the bank's auditors.

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, 2004.

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, 2004 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, 2004 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. Additional information relating to the bank may be found on our website at rbc.com, on the Canadian Securities Administrators' website at sedar.com and on the EDGAR section of the United States Securities and Exchange Commission's website at sec.gov.

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 ASSET MANAGEMENT, RBC CAPITAL TRUST, RBC CAPITAL TRUST II, ROYAL BANK OF CANADA GLOBAL PRIVATE BANKING, ROYAL MUTUAL FUNDS, and FX DIRECT which are trademarks of Royal Bank of Canada used by Royal Bank of Canada and/or by its subsidiaries under license. All other trademarks mentioned in this report are the property of their respective holders.

APPENDIX A: AUDIT COMMITTEE MANDATE

ROYAL BANK OF CANADA
EXTRACT FROM THE ADMINISTRATIVE RESOLUTIONS ADOPTED BY THE
BOARD OF DIRECTORS OF ROYAL BANK OF CANADA
(hereinafter referred to as the "Bank")

(As at November 30, 2004)

2.1 Audit Committee

2.1.1 Establishment of Committee and Procedures

a) Establishment of Committee

A committee of the directors to be known as the "Audit Committee" (hereinafter the "Committee") is hereby established.

b) Composition of Committee

The Committee shall be composed of not less than five directors. Each member shall be financially literate, as the Board of Directors interprets such qualification in its business judgment, or must become financially literate within a reasonable period of time after appointment to the Committee. At least one member shall have accounting or related financial management expertise, as the Board of Directors interprets such qualification in its business judgment.

c) Independence of Committee Members

As required by the *Bank Act*, none of the members of the Committee shall be an officer or employee of the Bank or of an affiliate of the Bank. All of the members of the Committee shall be "unaffiliated", as defined in regulations made under the *Bank Act*. All of the members of the Committee shall be independent, as determined by director independence standards adopted by the Board. None of the members of the Committee shall receive from the Bank any compensation other than directors' fees.

d) Appointment of Committee Members

Members shall be appointed or reappointed at the annual Organizational Meeting of the directors and in the normal course will serve a minimum of three years. Each member shall continue to be a member until a successor is appointed, unless the member resigns, is removed or ceases to be a director. The Board of Directors may fill a vacancy that occurs in the Committee at any time.

Committee Chairman and Secretary

The Board of Directors or, in the event of its failure to do so, the members of the Committee, shall appoint or reappoint, at the annual Organizational Meeting of the directors, a Chairman from among their number. The Chairman shall not be a former employee of the Bank or of an affiliate. The Committee shall also appoint a Secretary who need not be a director.

Time and Place of Meetings

Meetings may be called by any member of the Committee, or by the external auditors. The time and place of and the procedure at meetings shall be determined from time to time by the members provided that:

i) a quorum for meetings shall be three members;

ii) the Committee shall meet at least quarterly;

iii) the Committee may request any officer or employee of the Bank or the Bank's outside counsel or external auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee;

iv) notice of the time and place of every meeting shall be given in writing or by telephone, facsimile, email or other electronic communication to each member of the Committee and to the external auditors at least 24 hours prior to the time fixed for such meeting, provided, however, that business referred to in paragraph 2.1.3.f)(ii) below may be transacted at a meeting of which at least one hour prior notice is given as aforesaid, and that a member may in any manner waive notice of a meeting; and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called; and

v) a resolution in writing signed by all the members entitled to vote on that resolution at a Committee meeting, other than a resolution of the Committee carrying out its duties under subsection 194(3) of the *Bank Act*, shall be as valid as if it had been passed at a meeting of the Committee.

Reporting to the Board of Directors

The Committee shall report verbally after each meeting and annually in writing to the Board of Directors with respect to its activities with such recommendations as are deemed desirable in the circumstances. Prior to approval by the directors, the Committee will also report to the Board on the annual statement and returns that must be approved by the directors under the *Bank Act*.

Evaluation of Effectiveness and Review of Mandate

The Committee shall annually review and assess the adequacy of its mandate and evaluate its effectiveness in fulfilling its mandate.

2.1.2 General Scope of Responsibilities and Purpose of the Committee

Management of the Bank is responsible for the preparation, presentation and integrity of the Bank's financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

The external auditors are responsible for planning and carrying out, in accordance with professional standards, an audit of the Bank's annual financial statements and reviews of the Bank's quarterly financial information.

The Committee's purpose is to review the adequacy and effectiveness of these activities and to assist the Board in its oversight of:

(i) the integrity of the Bank's financial statements;

(ii) the external auditors' qualifications and independence;

(iii) the performance of the Bank's internal audit function and external auditors;

(iv) the adequacy and effectiveness of internal controls; and

(v) the Bank's compliance with legal and regulatory requirements.

The Committee is also responsible for preparing any report from the Committee that may be required to be included in the Bank's annual proxy statement or that the Board elects to include on a voluntary basis.

The Committee shall meet every fiscal quarter, or more frequently at the discretion of the Committee if circumstances dictate, to discuss with management the annual audited financial statements and quarterly financial statements.

At least quarterly, the Committee shall have separate private meetings with the external auditors, the chief internal auditor and management to discuss any matters that the Committee or these groups believe should be discussed.

In fulfilling its role, the Committee is empowered to investigate any matter with full access to all books, records, facilities and personnel of the Bank and the authority to retain outside counsel or other experts for this purpose.

2.1.3 Specific Responsibilities

a) Documents and Reports

The Committee shall review:

i) the annual statement of the Bank that under the *Bank Act* must be approved by the directors and shall report to the directors before such annual statement is approved by the directors;

ii) the quarterly financial statements of the Bank;

iii) the Annual Information Form;

iv) the quarterly and annual Management's Discussion and Analysis;

v) earnings press releases, and the types of financial information and earnings guidance provided and types of presentations made to analysts and rating agencies;

vi) such returns and other periodic disclosure documentation as the Bank is required to file pursuant to applicable legislation, or as the Superintendent of Financial Institutions or as other regulators may specify;

vii) such investments and transactions that could adversely affect the well-being of the Bank as the external auditors or any officer of the Bank may bring to the attention of the Committee;

viii) prospectuses relating to the issuance of securities of the Bank;

ix) an annual report on any litigation matters which could significantly affect the financial statements; and

x) an annual report from the chief compliance officer on regulatory compliance matters.

b) Internal Control

The Committee shall require management of the Bank to implement and maintain appropriate systems of internal control. The Committee shall review, evaluate and approve those procedures and meet with the chief internal auditor of the Bank and with management of the Bank to assess the adequacy and effectiveness of these systems of internal control and to obtain on a regular basis reasonable assurance that the organization is in control.

c) Internal Auditor

The Committee shall:

i) review and concur in the appointment, replacement, reassignment or dismissal of the chief internal auditor and review the mandate, annual audit plan, and resources of the internal audit function;

ii) meet with the chief internal auditor of the Bank to review the results of internal audit activities, including any significant issues reported to management by the internal audit function and management's responses and/or corrective actions;

iii) meet with the chief internal auditor of the Bank to determine whether any significant weaknesses or breakdowns that have been identified are being addressed;

iv) review representations from the chief internal auditor, based on audit work done, on the adequacy and degree of compliance with the Bank's systems of internal control;

v) review the performance, degree of independence and objectivity of the internal audit function and adequacy of the internal audit process; and

vi) review with the chief internal auditor any issues that may be brought forward by the chief internal auditor, including any difficulties encountered by the internal audit function, such as audit scope, information access, or staffing restrictions.

d) External Auditors

The Committee, in its capacity as a committee of the Board of Directors, shall have the authority and responsibility to recommend the appointment and recommend the revocation of the appointment of any registered public accounting firm (including the external auditors) engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services, and to fix their remuneration, subject to the powers conferred on the shareholders by the *Bank Act*. The Committee shall be responsible for the oversight of the work of each such accounting firm, including resolution of disagreements between management and the accounting firm regarding financial reporting, and each such firm shall report directly to the Committee. The Committee shall:

i) meet with the external auditors to review and discuss the annual audit plan, the results of the audit, their report with respect to the annual statement and the returns and transactions referred to in subsection 194(3) of the *Bank Act*, and the report required to be provided to the Committee by the external auditors pursuant to Rule 2-07of the U.S. Securities and Exchange Commission's Regulation S-X;

ii) have the sole authority to approve all audit engagement fees and terms, as well as the provision and the terms of any legally permissible non-audit services to be provided by the external auditors to the Bank, with such approval to be given either specifically or pursuant to preapproval policies and procedures adopted by the committee;

iii) review with the external auditors any issues that may be brought forward by the external auditors, including any audit problems or difficulties, such as restrictions on their audit activities or access to requested information, and management's response;

iv) annually review with the external auditors their qualifications, independence and objectivity, including formal written statements delineating all relationships between the external auditors and the Bank that may impact such independence and objectivity;

v) discuss with the external auditors and with management of the Bank the annual audited financial statements and quarterly financial statements, including the disclosures contained in "Management's Discussion and Analysis";

vi) review hiring policies concerning employees or former employees of the external auditors;

vii) review and evaluate the qualifications, performance and independence of the lead partner of the external auditors and discuss the timing and process for implementing the rotation of the lead audit partner, the concurring audit partners and any other active audit engagement team partner; and;

viii) take into account the opinions of management and the Bank's internal auditors in assessing the qualifications, performance and independence of the external auditors.

e) CDIC

To ensure compliance with the standards of the Canada Deposit Insurance Corporation ("CDIC") the Committee shall:

i) review on a regular basis the Bank's control environment and internal controls;

ii) review and approve at least once a year the liquidity and funding management policies and capital management policies recommended by the Bank's management;

iii) review on a regular basis the liquidity and funding management processes and the capital management process;

iv) obtain on a regular basis reasonable assurance that the Bank's liquidity and funding management policies and capital management policies are being adhered to;

v) annually review a senior management representation letter concerning adherence to the CDIC standards presented to the Committee; and

vi) review and approve a periodic standards report and any other matters required from time to time by CDIC.

f) Other

i) The Committee shall discuss major issues regarding accounting principles and financial statement presentations, including significant changes in the Bank's selection or application of accounting principles, analyses prepared by management or the external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effect on the financial statements of alternative methods of applying Canadian or U.S. generally accepted accounting principles, of regulatory and accounting initiatives and of off-balance sheet structures;

ii) The Committee shall establish procedures for the receipt, retention, treatment and resolution of complaints received by the Bank regarding accounting or auditing matters, as well as procedures for the confidential and anonymous submission by employees of the Bank of concerns regarding accounting or auditing matters;

iii) The Committee shall review and discuss any reports concerning material violations submitted to it by Bank attorneys or outside counsel pursuant to the attorney professional responsibility rules of the U.S. Securities and Exchange Commission, the Bank's attorney reporting policy, or otherwise;

iv) The Committee may designate and authorize the issue of First Preferred Shares as provided in the relevant Standing Resolution of the Board of Directors;

v) The Committee shall, as appropriate, obtain at the expense of the Bank advice and assistance from outside legal, accounting or other advisors;

vi) The Committee shall discuss the major financial risk exposures of the Bank and the steps management has taken to monitor and control such exposures;

vii) In connection with the exercise of the delegated power to authorize and approve issues of subordinated indebtedness of the Bank, the Committee shall review and approve the Draft Securities Disclosure Document as provided in the relevant Standing Resolution of the Board of Directors; and

viii) Subject to the laws applicable to the subsidiary, the Committee may perform for and on behalf of a subsidiary the functions of an audit committee of the subsidiary.

Financial review

> U.S. GAAP

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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 United States 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 2005, our medium- and long-term goals, and our strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “plan,” “anticipate,” “estimate,” “expect,” “intend,” 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 our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian and United States economies and economies of other countries in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary 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; the impact of changes in the laws and regulations regulating financial services and the enforcement thereof (including banking, insurance and securities); judicial or regulatory judgments and legal proceedings; our ability to obtain accurate and complete information from or on behalf of our customers and counterparties; our ability to successfully realign our organizational structure, resources and processes; our ability to complete strategic acquisitions and to integrate our acquisitions successfully; the changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; and other factors that may affect future results including changes in trade policies, timely development and introduction of new products and services, changes in tax laws, technological changes, unexpected changes in consumer spending and saving habits, the possible impact on our businesses of international conflicts and other developments including those relating to the war on terrorism, and our anticipation of and success in managing the foregoing risks.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the bank, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. 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 31,2004, compared to those of the 12 months ended October 31,2003 and 2002. The consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) are on pages 74 to 110.

Our fiscal year-end is October 31. This management's discussion and analysis is dated December 20, 2004. All dollar amounts are in Canadian dollars, unless otherwise specified.

Additional information relating to Royal Bank of Canada, including our 2004 Annual Information Form, is available free of charge on our website at *rbc.com,* on the Canadian Securities Administrators' website at *sedar.com* and on the EDGAR section of the United States Securities and Exchange Commission's website at *sec.gov.*

Business overview

Royal Bank of Canada is a diversified global financial service group and a leading provider of personal and commercial banking, investment and trust services, insurance, corporate and investment banking, online banking, and transaction-based services including custody. Royal Bank of Canada operates under the masterbrand RBC Financial Group and for the fiscal year ended October 31, 2004, had five major business segments: RBC Banking (personal and commercial banking), RBC Investments (wealth management), RBC Insurance (insurance), RBC Capital Markets (corporate and investment banking) and RBC Global Services (securities custody and transaction processing). Royal Bank of Canada serves more than 12 million personal, business and public sector clients worldwide from offices in more than 30 countries.

Effective November 1,2004, we realigned our organizational structure, resources and processes to serve our clients better and more efficiently across all of our businesses, find new ways to generate stronger revenue growth, and streamline our organization and processes for faster decision-making, quicker implementation and better productivity. As part of the realignment, our five prior business segments were realigned into three segments structured around client needs and geographic location: (1) a Canadian personal and business segment, which combines our Canadian banking, investments and global insurance businesses, including Canadian, U.S. and international insurance operations; (2) a U.S. and international segment, which includes banking and investments in the U.S., banking and brokerage in the Caribbean, and Global Private Banking internationally; and (3) a global capital markets segment that includes corporate banking, which serves corporate and larger commercial clients.

We are integrating all our systems and operating capabilities in a global technology and operations group. In the fourth quarter, we eliminated a number of executive and senior management positions, commenced streamlining resources and took action to close redundant premises. We expect the majority of the remaining staff and occupancy cost reductions to be completed during 2005. The more complex technology initiatives will likely yield results in 2006 and 2007.

We will begin reporting our financial results under our new structure in the first quarter of 2005. We believe that as a result of the realignment, we will record better expense control and revenue growth performance in Canada and the United States and, accordingly, have established more aggressive financial objectives in these areas for 2005.

For much of 2005, our outlook is for steady interest rates in Canada and rising interest rates in the United States. We look for economic growth in the United States to ease to around 3.7% in 2005, after an estimated 4.4% pace in 2004. In Canada we expect a slight acceleration into the 3% range, after estimated growth of 2.7% in 2004. Overall, the global economy has entered a period of slower, more sustainable growth following robust expansion, which should have a favourable impact on our loan, deposit and revenue growth and the performance of our loan portfolio. The Canadian dollar equivalent of our U.S. dollar-denominated revenues, expenses and net income in 2004 were lowered relative to 2003 by the weaker U.S. dollar. The continued appreciation of the Canadian dollar relative to the U.S. dollar would reduce the translated value of our U.S. dollar-denominated revenues, expenses and earnings in 2005 compared to those in 2004.

FINANCIAL OVERVIEW

As shown in the table below, net income in 2004 decreased $197 million or 6% from 2003. This largely reflected a $784 million increase in non-interest expenses (including a $419 million increase in human resources expenses and the Cooperatieve Centrale Raiffeisen-Boerenleenbank (Rabobank) settlement costs in the first quarter), business realignment charges of $192 million, a goodwill impairment charge of $130 million and a $55 million decline in the translated value of the U.S. dollar-denominated earnings due to the strengthening of the Canadian dollar relative to the U.S. dollar. These factors more than offset the benefits of a $403 million increase in revenues, a $368 million decline in the provision for credit losses and a lower income tax expense.

Table 1 Financial overview

(C$ millions, except per share data and percentage amounts)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Total revenues	**$17,350**	$16,947	$17,060	**$ 403**	**2%**
Non-interest expense	**11,020**	10,236	10,244	**784**	**8**
Business realignment charges	**192**	—	—	**192**	**n.m.**
Goodwill impairment	**130**	—	—	**130**	**n.m.**
Provision for (recovery of) credit losses					
Allocated specific	**522**	715	1,065	**(193)**	**(27)**
Allocated general and unallocated	**(175)**	—	—	**(175)**	**n.m.**
Net income	**2,839**	3,036	2,898	**(197)**	**(6)**

Earnings per share (EPS) — diluted (2)	**4.25**	4.42	4.12	**(0.17)**	**(4)**
Return on equity (ROE)	**15.9%**	17.0%	16.6%		**(110)bp**
Tier 1 capital ratio(1)	**8.9%**	9.7%	9.3%		**(80)bp**
Total capital ratio(1)	**12.4%**	12.8%	12.7%		**(40)bp**

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

(2) Diluted earnings per share for 2003 has been restated to reflect a reduction of one cent per share as a result of adopting EITF 03-6 during 2004. See Note 1 on page 83 for details.

n.m. not meaningful

Diluted earnings per share were $4.25, down $.17 or 4% from a year ago. This decline occurred despite an $.08 increase due to a 2% reduction in average shares outstanding in 2004, which was offset by an $.08 decrease due to the strengthening of the Canadian dollar relative to the U.S. dollar.

The Canadian dollar appreciated 9% relative to the U.S. dollar, averaging US$.762 in 2004 compared to US$.697 in 2003, which lowered our revenues, expenses and net income by $500 million, $345 million and $55 million, respectively, compared to 2003. 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.

Our 2004 results were affected by a number of factors. Revenues were negatively influenced by low interest rates and competitive pricing pressures, which compressed deposit and residential mortgage spreads, and by the appreciation of the Canadian dollar relative to the U.S. dollar compared to a year ago. However, we delivered solid loan and deposit growth as the result of ongoing marketing initiatives and product and service launches and benefited from stronger capital markets. On the expense side, we experienced higher human resources expenses (primarily higher benefit costs and higher variable compensation costs, driven by increases in revenues) and the Rabobank settlement costs, net of a related reduction in compensation. Further improvement in the credit environment and successful collection efforts resulted in lower nonaccrual loans and a lower provision for credit losses.

As a result of the business realignment mentioned above, we recorded charges as follows:

Business realignment charges

(C$ millions)	Employee-related charges	Premises-related charges	Other charges	Total charges	Related income taxes	Total charges (after-tax)
RBC Banking	$ 62	$ 13	$ —	$ 75	$ 26	$ 49
RBC Investments	17	—	—	17	6	11
RBC Insurance	8	—	—	8	3	5
RBC Capital Markets	25	—	—	25	9	16
RBC Global Services	3	—	—	3	1	2
Other	51	—	13	64	22	42
Total	$ 166	$ 13	$ 13	$ 192	$ 67	$ 125

We have eliminated a number of executive and senior management positions, commenced streamlining resources and taken actions to close redundant premises. We took business realignment charges of $192 million, including $166 million of employee-related charges, and $26 million of premises-related charges and other charges consisting entirely of professional service fees. The employee-related charge of $166 million relates to approximately 1,660 position eliminations, largely in head office and support roles made redundant by the realignment of our five business segments into three and by the ongoing consolidation of our operations and technology platforms. About 40 staff of the approximately 1,660 positions (primarily executive and senior management staff) were notified by October 31, 2004, and the majority of the remaining positions are expected to be eliminated in 2005. We are in the process of closing 38 of RBC Mortgage's 213 branches in the U.S., with an additional 9 RBC Mortgage branches and 10 of RBC Centura's 275 branches scheduled to be closed in 2005. While these actions reduced the year's earnings, we believe they position us for better performance in the future.

During the fourth quarter, coincident with completion of our annual goodwill impairment test, we announced our business realignment. The results of our goodwill impairment test, which was based on a discounted cash flow model, indicated that the goodwill attributable to RBC Mortgage is impaired by $130 million. As a result, we recorded a $130 million goodwill impairment charge.

Table 2 Results by geographic segment

	2004				2003			
(C$ millions)	Canada	United States	Other International	Total	Canada	United States	Other International	Total
Net interest income	**$ 5,173**	**$1,117**	**$ 394**	**$ 6,684**	$ 5,105	$1,209	$ 264	$ 6,578
Non-interest income	**5,797**	**3,260**	**1,609**	**10,666**	5,179	3,348	1,842	10,369
Total revenues	**10,970**	**4,377**	**2,003**	**17,350**	10,284	4,557	2,106	16,947
Provision for credit losses								
Allocated specific	**418**	**126**	**(22)**	**522**	521	108	86	715
Allocated general and unallocated	**(74)**	**(65)**	**(36)**	**(175)**	—	(2)	2	—
Insurance policyholder benefits, claims and acquisition expense	**769**	**399**	**341**	**1,509**	543	376	485	1,404
Non-interest expense	**6,343**	**3,695**	**982**	**11,020**	5,822	3,504	910	10,236
Business realignment charges	**142**	**44**	**6**	**192**	—	—	—	—
Goodwill impairment	**—**	**130**	**—**	**130**	—	—	—	—
Income taxes (1)	**1,211**	**18**	**84**	**1,313**	1,310	208	38	1,556
Net income	**$ 2,161**	**$ 30**	**$ 648**	**$ 2,839**	$ 2,088	$ 363	$ 585	$ 3,036

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

Net income from Canadian operations was $2,161 million, up $73 million or 3% from 2003. This increase reflects loan and deposit growth in RBC Banking of 9% and 6%, respectively, significant revenue growth in Wealth Management Canada within RBC Investments of $169 million or 14%, the acquisition of the Canadian operations of Provident Life and Accident Insurance Company (UnumProvident) by RBC Insurance, and a decline in the provision for credit losses, partially offset by higher non-interest expenses (largely benefit and variable compensation costs), and business realignment charges of $142 million recorded in the fourth quarter of 2004.

Net income from U.S. operations was down $333 million or 92% from a year ago to $30 million, primarily as a result of the Rabobank settlement costs, the $130 million goodwill impairment charge and lower mortgage origination volumes and margins at RBC Mortgage, lower returns in RBC Centura's investment portfolio, and the business realignment charges of $44 million reported in the fourth quarter.

Other international net income was $648 million in 2004, up $63 million or 11% from 2003, mainly reflecting a recovery of credit losses of $58 million compared to provisions for credit losses of $88 million in 2003.

Financial priorities
Revenue growth and diversification

Total revenues were up $403 million or 2%. The increase in revenues reflected higher insurance revenues (which now include UnumProvident), higher capital markets-related revenues other than trading (mutual fund revenues, securities brokerage commissions, underwriting and other advisory fees, investment management and custodial fees), and strong growth in loans and deposits. These factors more than offset a $500 million reduction due to the strengthening of the Canadian dollar against the U.S. dollar and a $169 million decline in total trading revenues (included in both net interest income and non-interest income). A detailed discussion follows on pages 42 to 45.

Cost control

Non-interest expense was up $784 million or 8%, largely due to an increase in human resource expenses (primarily higher benefit costs, and higher variable compensation costs, driven by increases in revenues) and the Rabobank settlement costs, net of a related reduction in compensation. The appreciation of the Canadian dollar relative to the U.S. dollar reduced non-interest expense by $345 million. A full discussion is provided on pages 46 to 47.

Strong credit quality

The provision for credit losses declined by $368 million or 51% due to fewer new problem loans, the reversal of specific allowances reflecting the favourable resolution of a number of earlier problem loans and the reversal of $175 million of the general allowance. Nonaccrual loans declined by $486 million or 28% this year due to successful collection efforts, resulting in a number of problem accounts being repaid, restructured or sold and a general improvement in the credit environment, resulting in fewer new problem loans. Detailed discussion and tables can be found on pages 48 to 56.

Balance sheet and capital management

Total assets were $447.7 billion at October 31, 2004, up $35.1 billion or 9% from October 31, 2003, reflecting higher loans and other assets. At October 31, 2004, using Superintendent of Financial Institutions Canada (OSFI) guidelines and Canadian GAAP financial information, our Tier 1 capital ratio was 8.9% and our Total capital ratio was 12.4%, both above our medium-term (three- to five-year) goals of 8-8.5% for Tier 1 capital and 11-12% for Total capital. More details are provided on pages 62 to 64.

Outlook

We are targeting growth in earnings per share of 20%+ and ROE of 18-20% in 2005 based on expectations of better revenue growth and expense control, stronger results in our U.S. operations and continued strength in the Canadian economy in 2005.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Application of critical accounting policies and estimates

Our significant accounting policies are contained in Note 1 to the consolidated financial statements on pages 79 to 83. Certain of these policies as well as estimates made by management in applying such policies are recognized as critical because they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that significantly different amounts could be reported under different conditions or using different assumptions. Our critical accounting policies and estimates relate to the allowance for credit losses, fair value of financial instruments, securitization and variable interest entities and pensions. 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 and estimates.

Allowance for credit losses

The allowance for credit losses represents management's estimate of probable losses incurred in our lending portfolio including loans, acceptances, letters of credit and unfunded commitments, as at the balance sheet date. The allowance for credit losses comprises three distinct components – allocated specific, allocated general and unallocated; each component is available to absorb losses incurred in the entire portfolio. The allocated specific allowance is determined on an ongoing basis through management's identification and determination of losses related to nonaccrual accounts. The general (allocated and unallocated) allowances are determined on a quarterly basis through management's assessment of probable losses in the remaining portfolio.

The process for determining the allowances involves quantitative and qualitative assessments using current and historical credit information. The process inherently requires the use of certain assumptions and judgments including (i) assessing the nonaccrual status and/or risk ratings of loans, (ii) estimating cash flows and collateral values, (iii) developing default and loss rates based on historical and industry data, (iv) adjusting loss rates and parameters based on the relevance of historical experience given changes in credit strategies, processes and policies, (v) assessing the current credit quality of the portfolio based on credit metric trends in relation to nonaccrual, charge-offs and recoveries, and portfolio composition and concentrations, and (vi) determining the current position in the economic and credit cycles. Changes in these assumptions or using other reasonable judgments can materially affect the allowance level and net income.

Allocated specific allowance

Allocated specific allowances are established to absorb probable losses on nonaccrual loans. Nonaccrual loans are recognized when, based on management's judgment, there is no longer reasonable assurance that all interest and principal payments will be made in accordance with the contracted agreement.

For large business and government portfolios, which are continuously monitored, an account is classified as nonaccrual based on our

evaluation of the borrower's overall financial condition, its available resources and its propensity to pay amounts as they come due. Allocated specific allowances are established on an individual account basis, using management's judgment relating to the timing of future cash flows including amounts that can be reasonably expected from the borrower, financially responsible guarantors or the realization of collateral. The amounts expected to be recovered are reduced by estimated collection costs and discounted at the effective interest rate of the obligation.

For homogeneous portfolios (consumer and small businesses), excluding credit cards, which are directly charged off after 180 days in arrears, accounts are classified as nonaccrual based on contractual delinquency status, generally 90 days past due. The estimation of allocated specific allowances on these nonaccrual accounts is based on a formula that applies a product-specific net charge-off ratio to the related

nonaccrual amounts. The net charge-off ratios are based on historical loss experience, adjusted to reflect management's judgment relating to recent credit quality trends including delinquency, loss severity and portfolio composition.

Allocated general allowance

The allocated general allowance is established to absorb expected losses on accounts in the lending portfolio that have not yet been specifically classified as nonaccrual. This estimation is based on a number of assumptions including (i) the level of unidentified problem loans given current economic and business conditions, (ii) the timing of an account being classified as nonaccrual, (iii) the committed amount that will be drawn when the account is classified as nonaccrual, and (iv) the ultimate severity of loss. In determining the appropriate level of allocated general allowance, management first employs a number of statistical models using historical loss rates and parameters to estimate a range of probable losses over an economic cycle. Management then considers changes in the credit processes including underwriting, limit setting and the workout process in order to adjust historical experience to better reflect the current environment. In addition, current credit information including portfolio composition, credit quality trends and economic, business and industry information is assessed to determine the appropriate allowance level. The level is then compared to other relevant benchmarks to ensure the consistency and reasonableness of the assumptions and allowance level.

For large business and government loans, the allocated general allowance level is estimated based on management's judgment of business and economic conditions, historical and expected loss experience, the impact of policy changes and other relevant factors. The range of loss is derived through the application of a number of loss parameters related to committed obligations. The key parameters used are probability of default (PD), loss given default (LGD) and usage given default (UGD). PDs are delineated by borrower type and risk rating, LGDs are largely based on transactional structure and client type, and UGDs are applied based on risk rating. These parameters are based on long-term historical loss experience (default migration, loss severity and exposure at default), supplemented by external studies and industry initiatives, and are updated on a regular basis. This approach allows us to generate a range of potential losses over an economic cycle, including an average "expected loss." One of the key judgmental factors that influences the loss estimate for this portfolio is the application of the internal risk rating framework, which relies on our quantitative and qualitative assessments of a borrower's financial condition in order to assign it an internal credit risk rating similar to those used by external rating agencies. As the large business and government loan portfolio is subject to a high level of volatility, management also considers single-name and sectoral concentration risk in assessing the adequacy of the allowance level. Any material change in the above parameters or assumptions would affect the range of expected credit losses and consequently may affect the allocated general allowance level.

For homogeneous loans, including residential mortgages, credit cards, and personal and small business loans, probable losses are estimated on a portfolio basis. Long-term historical net charge-off experience is applied to current outstanding loans to determine a range of probable losses over an economic cycle. Management then considers the current portfolio credit quality trends, business and economic conditions, the impact of policy and process changes, and other supporting factors to determine the level of the allocated general allowance.

Unallocated allowance

The unallocated allowance is based on management's assessment of the overall adequacy of the allowance. This assessment includes (i) an estimate of probable credit losses that have not been captured in the allocated specific and allocated general allowances, due to limitations and imprecision inherent in the allocated allowance methodologies, and (ii) benchmarking against internal and external references.

Based on the procedures discussed above, management is of the opinion that the total allowance for credit losses of $1,714 million is adequate to absorb estimated credit losses incurred in the lending portfolio as at October 31, 2004. This amount includes $70 million related to letters of credit and unfunded commitments, which is classified in other liabilities. The year-over-year reduction of $450 million largely reflects the overall improvement in the credit quality of the portfolio, as well as the reduction in exposure to problem sectors.

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 securities held in our trading portfolio, securities that are available for sale, obligations related to securities sold short and derivative financial instruments. At October 31, 2004, approximately $167 billion of our financial assets and $66 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 fair value. Note 24 on pages 108 to 109 provides disclosure of the estimated fair value of all our financial instruments at October 31, 2004.

If a quoted market price is not available, we use internal or external financial valuation models to estimate 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.

The majority of our trading and available for sale securities 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.

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 and carried at fair value. Refer to Securitization and variable interest entities below for further details on our valuation methodology, our assumptions used and the sensitivity of the fair value of retained interests to adverse changes in those assumptions.

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-Schöles, to determine fair value. 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. Unrealized gains and losses at inception are deferred and recognized over the term of the contract unless the fair value of the derivative financial instrument at inception is evidenced by quoted market prices, other current market transactions or observable market inputs. For further information on our derivative instruments, refer to Note 22 on pages 106 to 107.

The following table summarizes our significant financial assets and liabilities by valuation methodology at October 31,2004.

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					
Based on	**$ 87,635**	**$ 39,861**	**$39,640**	**$ 23,815**	**$42,656**
Quoted market prices	**87%**	**66%**	**—%**	**93%**	**—%**
Pricing models with significant observable market parameters	**13**	**34**	**99**	**7**	**100**
Pricing models with significant unobservable market parameters	**—**	**—**	**1**	**—**	**—**
	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. Refer to the Risk management section on pages 57 to 61 and the Asset/Liability management section on pages 65 to 71 for further details on the sensitivity of financial instruments used in trading and non-trading activities, respectively.

As outlined in Note 1 on page 79, 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 80 to 81 for further details.

Changes in the fair 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.

Securitization and variable interest entities

We periodically securitize residential mortgages, credit card receivables and commercial mortgage loans by selling them to special purpose entities (SPEs) or trusts that issue securities to investors. Some of the key accounting determinations in a securitization of our loans are whether the transfer of the loans meets the criteria required to be treated as a sale and, if so, the valuation of our retained interests in the securitized loans. A sale can be recognized if we receive consideration other than beneficial interests in the transferred loans, the transferred loans are legally isolated from our creditors, the transferee is able to sell or pledge the transferred loans and we do not maintain effective control over the transferred loans through an agreement to repurchase them or have a right to cause the loans to be returned. When we securitize loans and retain an interest in the securitized loans it is a matter of judgment whether the loans have been legally isolated. We obtain legal opinions where required to establish legal isolation of the transferred loans. We often retain interests in securitized loans such as interest-only strips, servicing rights or cash reserve accounts. Where quoted market prices are not available, the valuation of retained interests in sold assets is based on our best estimate of several key assumptions such as the payment rate of the transferred loans, excess spread, expected credit losses and discount rate. The fair value of such retained interests calculated using these assumptions affects the gain or loss that is recognized from the sale of the loans. See Note 7 on pages 90 to 91 for the volume of securitization activity in our loans, the gain or loss recognized on sale and a sensitivity analysis of the key assumptions in valuing our retained interests. Another key accounting determination is whether the SPE that is used to securitize and sell our loans is required to be consolidated. As described in Note 8 on page 92, we concluded that none of the SPEs used to securitize our financial assets should be consolidated.

We also enable our clients to securitize their financial assets by providing them access to funding through multi-seller asset-backed commercial paper conduits (multi-seller conduits) that we administer. The key accounting determination with respect to these multi-seller conduits is whether we are required to consolidate them. This determination is made under the Financial Accounting Standards Board (FASB) new Interpretation No. 46 (FIN 46R), *Consolidation of Variable Interest Entities.* We had to exercise judgment in applying FIN 46R to these multi-seller conduits to identify our variable interests and compare them with other variable interests held by unrelated parties to determine if we were exposed to a majority of each multi-seller conduit's expected losses and expected residual returns as defined in FIN 46R. We concluded that our variable interests in these multi-seller conduits primarily result from provision of backstop liquidity facilities, partial credit enhancement and our entitlement to residual fees. We transact plain vanilla interest rate and foreign currency derivatives with the multi-seller conduits at market rates. We do not consider these derivatives to be variable interests. Using qualitative and quantitative analysis, we calculated the expected losses and expected residual returns attributable to our variable interests in each multi-seller conduit and those attributable to an unrelated party and based on a comparison of the two we determined that we were not exposed to a majority of any of the multi-seller conduit's expected losses or expected residual returns. We therefore concluded that we were not required to consolidate these multi-seller conduits as at October 31, 2004. See discussion on off-balance sheet activities on pages 69 to 70 and Note 8 on pages 91 to 92 for a description of these multi-sellers, their size, our variable interests in them, our maximum exposure to loss and the restructuring undertaken during 2004. Note 8 also describes our involvement with other variable interest entities and recognizes the risk of FIN 46R interpretations changing in the future, which may lead us to

conclude differently on their consolidation.

Pensions

We sponsor a number of defined benefit and defined contribution plans providing pension and other benefits to eligible employees after retirement. These plans include statutory pension plans, supplemental pension plans and health, dental and life insurance plans. These pension plans provide benefits based on years of service, contributions and average earnings at retirement.

Due to the long-term nature of these plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, health care cost trend rates, projected salary increases, retirement age, mortality and termination rates. These assumptions are determined by management and are reviewed annually by the actuaries. Actual experience that differs from the assumed experience will affect the amounts of benefit obligation and expense. The weighted average assumptions used and the sensitivity of key assumptions are presented in Note 18 on pages 100 to 101.

LINE OF BUSINESS RESULTS

Overview

Table 3 below shows our results by business segment in 2004. 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 58. Common equity in excess of that required to support the risks in our five 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 ROE. Furthermore, the attribution of common equity is a dynamic process and is affected by current business activity, volumes and environmental factors. Other companies may use different methodologies to allocate equity to their segments.

Average allocated common equity attributed to RBC Banking and RBC Capital Markets in 2004 was lower than a year ago. This is partially due to the decline in the translated value of U.S. dollar-denominated assets as a result of the appreciation of the Canadian dollar relative to the U.S. dollar. RBC Banking was also affected by the recalibration of credit risk portfolio rates for personal loan products, which reduced its allocated common equity, largely offset by attributions for the acquisitions of Sterling Capital Mortgage Company (Sterling) on September 30, 2003, and the Florida operations of Provident Financial Group, Inc. on November 21, 2003. The decrease in RBC Capital Markets also reflected lower credit risk, partially offset by an increase in equity attributed for higher market risk. Average allocated common equity attributed to RBC Insurance was higher, largely due to the acquisition of the Canadian operations of Provident Life and Accident Insurance Company (UnumProvident) on May 1, 2004, and to the first full year of the attribution for the acquisition of Business Men's Assurance Company of America (BMA) on May 1, 2003. Average allocated common equity attributed to RBC Investments had minimal change, while that attributed to RBC Global Services was unchanged.

Net income from RBC Banking fell to 45% of total net income from 51% last year, as net income declined 17%. ROE was 18.4% compared to 20.8% in 2003, reflecting the earnings decline. The financial performance of RBC Banking is discussed in detail on pages 30–32.

RBC Investments contributed 17% of our total net income. Net income grew 19% in 2004, while ROE increased 330 basis points to 18.4%. The factors contributing to the earnings improvement of RBC Investments are discussed in detail on pages 33–34.

We generated 10% of our total net income from RBC Insurance, which had net income growth of 19%. ROE remains strong at 25.3%. A detailed discussion of the financial performance of RBC Insurance is provided on pages 35–37.

Net income from RBC Capital Markets increased 34% from last year, accounting for 23% of our total net income in 2004. ROE rose to 18.7% from 12.6% last year. An analysis of the financial performance of RBC Capital Markets is provided on pages 38–39.

RBC Global Services generated 8% of total net income and recorded earnings growth of 26%, while ROE increased 760 basis points to 35.3% in 2004. The financial performance of RBC Global Services is discussed in detail on pages 40–41.

The Other segment recorded a net loss of $91 million compared to net income of $173 million in 2003. The decline in net income reflected a number of factors, which are discussed in detail on page 41.

Effective November 1, 2004, we realigned our five prior business segments into three segments structured around client needs and geographic locations: (1) a Canadian personal and business segment, which combines our Canadian banking, investments and global insurance businesses including Canadian, U.S. and international insurance operations; (2) a U.S. and international segment, which includes banking and investments in the U.S., banking and brokerage in the Caribbean, and Global Private Banking internationally; and (3) a global capital markets segment that includes corporate banking, which serves corporate and larger commercial clients. In addition, we are integrating all our systems and operating capabilities in a global technology and operations group. As the reorganization only became effective after the end of the 2004 fiscal year, the following management discussion and analysis is based on our previous structure. Further details on how businesses in each of the five segments will be reorganized under the new structure are presented in the Overview section for each segment on the pages that follow. We will begin reporting our financial results under the new structure in the first quarter of 2005.

Table 3 Results by business segment

	2004							2003
(C$ millions, except per share and percentage amounts)	**RBC Banking**	**RBC Investments**	**RBC Insurance**	**RBC Capital Markets**	**RBC Global Services**	**Other (1)**	**Total**	**Total**
Net interest income	**$5,517**	**$ 429**	**$ —**	**$ 716**	**$ 177**	**$ (155)**	**$ 6,684**	$ 6,578
Non-interest income	**2,036**	**3,322**	**2,267**	**2,123**	**742**	**176**	**10,666**	10,369
Total revenues	**7,553**	**3,751**	**2,267**	**2,839**	**919**	**21**	**17,350**	16,947
Provision for credit losses								
Allocated specific	**554**	**4**	**—**	**5**	**(5)**	**(36)**	**522**	715
Allocated general and unallocated	**(76)**	**—**	**—**	**(85)**	**(14)**	**—**	**(175)**	—
Insurance policyholder benefits, claims and acquisition expense	**—**	**—**	**1,509**	**—**	**—**	**—**	**1,509**	1,404
Non-interest expense	**4,841**	**3,015**	**472**	**2,052**	**625**	**15**	**11,020**	10,236
Business realignment charges	**75**	**17**	**8**	**25**	**3**	**64**	**192**	—

Goodwill impairment	**130**	**—**	**—**	**—**	**—**	**—**	**130**	—
Income taxes	**726**	**225**	**7**	**182**	**86**	**(32)**	**1,194**	1,443
Non-controlling interest	**16**	**—**	**—**	**2**	**—**	**101**	**119**	113
Net income (loss)	**$1,287**	**$ 490**	**$ 271**	**$ 658**	**$ 224**	**$ (91)**	**$ 2,839**	$ 3,036
U.S. net (loss) income	**(183)**	**118**	**13**	**86**	**8**	**(12)**	**30**	363
Net income								
As a % of total	**45%**	**17%**	**10%**	**23%**	**8%**	**(3)%**	**100%**	100%
% growth over prior year	**(17)%**	**19%**	**19%**	**34%**	**26%**	**(153)%**	**(6)%**	5%
Return on common equity	**18.4%**	**18.4%**	**25.3%**	**18.7%**	**35.3%**	**(3.6)%**	**15.9%**	17.0%
Average allocated common equity (2)	**$7,000**	**$ 2,600**	**$1,050**	**$ 3,500**	**$ 650**	**$2,750**	**$17,550**	$17,500

(1) Represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, and Information Technology.

(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

Overview

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 and client preferences 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.

Effective November 1, 2004, most of the Canadian operations within RBC Banking became part of the new Canadian personal and business segment, and operations in the U.S. and the Caribbean and the Bahamas became part of the new U.S. and international segment. Larger commercial clients previously served by RBC Banking will be served by the new global capital markets segment.

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, mortgages and deposits. The U.S. market is more fragmented, and regional markets are often highly competitive. Many banks across North America have expanded their focus to offer investment products and financial planning and advice to targeted clients. Critical success factors include providing a superior client experience, competitive products, strong revenue-focused sales processes, rigorous credit and operational risk management practices, and tight expense control.

Our strengths

- Established Canadian retail banking brand
- Strong capabilities in Customer Relationship Management (CRM), client segmentation and specialized sales forces
- Comprehensive product, sales, service and national distribution capabilities in Canada compared to niche players
- Among Canadian banks, market leadership in client household penetration in personal markets in Canada, and lead market share in total personal deposits and mutual funds, residential mortgages, business deposits, and business financing in Canada
- Presence in U.S. retail banking

2005 outlook

Our business results are influenced by Canadian and U.S. economic conditions and the effects of interest rates on consumer and business loan demand, net interest margins, credit quality trends and exchange rates, particularly the value of the U.S. dollar relative to the Canadian dollar.

In Canada, based on our forecast of stable interest rates through much of 2005, we anticipate that deposit spreads could remain somewhat compressed. However, reasonable economic and accompanying loan growth should have positive overall revenue implications for our Canadian consumer business, which will be part of the Canadian personal and business segment in 2005.

For our U.S. businesses, which will be part of the U.S. and international segment in 2005, we anticipate that organic loan and deposit balance growth will contribute favourably to RBC Centura revenues. Higher U.S. interest rates expected in 2005 could reduce the volume of mortgage origination loan activity at RBC Mortgage.

Our focus on revenue growth and cost management initiatives across Canada and the U.S. should also yield favourable results.

Financial performance

Net income from RBC Banking declined $267 million or 17% from a year ago as an earnings decline in U.S. operations more than offset earnings growth in Canada. Earnings in Canada improved $66 million or 5%, as revenue growth of $164 million, lower income taxes and a $76 million reversal of the general allowance were partially offset by a $177 million increase in non-interest expense (largely attributable to higher benefit and other compensation costs) and $47 million in business realignment charges. The $183 million net loss in the U.S. operations reflects the goodwill impairment charge of $130 million, as well as lower revenues from both RBC Centura and RBC Mortgage and $28 million in business realignment charges. The strengthening of the Canadian dollar relative to the U.S. dollar had an unfavourable impact on RBC Banking's net income of $6 million.

Results

(C$ millions, except percentage amounts)	% change	2004	2003
Net interest income	(1)%	**$ 5,517**	$ 5,546
Non-interest income	(3)	**2,036**	2,106
Total revenues	(1)	**7,553**	7,652

Provision for credit losses			
Allocated specific	—	**554**	554
Allocated general and unallocated	n.m.	**(76)**	—
Total	(14)	**478**	554
Non-interest expense	4	**4,841**	4,642
Business realignment charges	n.m.	**75**	—
Goodwill impairment	n.m.	**130**	—
Net income before income taxes	(17)	**2,029**	2,456
Income taxes	(19)	**726**	894
Non-controlling interest	100	**16**	8
Net income	(17)%	**$ 1,287**	$ 1,554
U.S. net (loss) income	(230)%	**$ (183)**	$ 141
Net income as a % of total group net income	(600)bp	**45%**	51%
ROE	(240)bp	**18.4%**	20.8%
Net interest margin (average assets)	(22)bp	**3.20%**	3.42%
Net interest margin (average earning assets)	(24)bp	**3.36%**	3.60%
Efficiency ratio (1)	340bp	**64.1%**	60.7%
Average assets (2)	6%	**$172,300**	$162,400
Average loans and acceptances (2)	7	**159,800**	149,600
Average deposits (2)	5	**140,700**	133,700
Average allocated common equity (2), (3)	(5)	**7,000**	7,350
Credit information			
Nonaccrual loans	(15)	**$ 852**	$ 1,007
Net charge-offs	(5)	**615**	648
Net charge-offs as a % of average loans and acceptances	(5)bp	**.38%**	.43%
Number of employees (full-time equivalent)	1%	**37,884**	37,475

(1) Efficiency ratio is defined in the Glossary on page 121.

(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 29.

n.m. not meaningful

Total revenues declined $99 million or 1% from last year, including the impact of the stronger Canadian dollar relative to the U.S. dollar, which reduced revenues by $107 million. In Canada, revenues rose $164 million or 3%, reflecting strong growth in loan and deposit balances and higher fee income, partly offset by a narrower net interest margin. Revenues in the U.S., however, were down $248 million or 20% (down 12% in U.S. dollars), reflecting lower origination volumes and margins at RBC Mortgage and lower returns in RBC Centura's investment portfolio. These factors were partially offset by the inclusion of a full year of revenues for Sterling in 2004 compared to one month of revenues in 2003, and strong loan growth at RBC Centura.

Total non-interest expense increased $199 million or 4% from a year ago, notwithstanding the favourable impact of the strengthening of the Canadian dollar relative to the U.S. dollar, which reduced expenses by $94 million. Expenses in Canada grew $177 million or 5%, mainly due to higher benefit costs (largely reflecting pension and postretirement benefit expenses), and other compensation costs. In the U.S., expenses increased $23 million or 2% (up 11% in U.S. dollars) reflecting a full year of expenses for Sterling in 2004 compared to one month of expenses in 2003, and a valuation allowance of $33 million in the second quarter of 2004 relating to certain mortgage loans that are believed to have been fraudulently originated in 2001 and 2002. However, the increase was partially offset by the impact of the strengthening Canadian dollar relative to the U.S. dollar, which reduced expenses by $93 million.

The provision for credit losses decreased $76 million or 14% from last year principally due to the $76 million reversal of the general allowance in 2004. Credit quality strengthened across the portfolio, with net charge-offs as a per cent of average loans and acceptances declining 5 basis points to .38%.

ROE declined to 18.4% from 20.8% a year ago, due to lower earnings this year and despite a decrease in average allocated common equity attributed to the segment.

REVIEW BY DIVISION

RBC BANKING — CANADA

Operating under the RBC Royal Bank brand, we serve individuals, small and medium-sized businesses, and commercial clients in all provinces and territories. Roughly one third of Canadian households deal with Royal Bank of Canada, which is the leading financial institution in Canada in terms of household penetration.

We offer our clients extensive physical and alternative distribution choices, providing them with 24/7 access. We continue to strengthen our distribution channel capabilities, including reinvestment in our branch network and staff, and in our electronic banking capabilities. More and more of our clients are availing themselves of our online banking services (see chart below). We have also strengthened our telephone banking capabilities delivered through Royal Direct, with specialized business advisors focused on small business clients and client care officers dedicated to client problem resolution.

We offer a wide range of financial services and advice, as detailed on page 30, and products and expertise in specialized areas such as foreign exchange, asset-based finance, leasing and automotive finance. We continue to strengthen our product lines, which include a full choice of credit card products such as our no fee RBC Rewards Visa Classic card introduced in 2004 and our increasingly popular RBC Royal Bank Visa Platinum Avion card. We provide merchants with credit and debit card acceptance services, point-of-sale capabilities and Internet-secure electronic transaction solutions through Moneris Solutions, Inc. (Moneris Solutions), a joint venture in which we participate equally with Bank of Montreal. We expanded our mortgage product offerings with the introduction in 2004 of RBC Homeline Plan, RBC Vacation Home Mortgages, and RBC No Down Payment Mortgages. Such product depth has contributed to strong volume growth in 2004 across nearly all product categories (see table at right), reinforcing our number one or number two product market share positions in Canada.

We also continue to strengthen our expertise in CRM and client segmentation, placing strong focus on targeted sub-segments such as high-growth manufacturers, professionals, business owners and "Snowbirds." We have a strong specialized sales force, which includes investment and retirement planners, financial planners, mortgage specialists and Knowledge-Based Industry and Agriculture focused account managers, among others. We are leveraging our diverse expertise to deliver strong capabilities in financial planning and advice.

Financial performance

Total revenues rose $164 million or 3%, as strong growth in loan and deposit balances and higher fee income were partly offset by a narrower net interest margin. Residential mortgage, personal loan and credit card average balances all grew in excess of 10%, while non-interest income grew 5%, driven by stronger credit card revenues due to higher spending volumes and higher mutual fund revenues from capital market appreciation and stronger sales. Net interest margin narrowed 19 basis points as the low interest rate environment and competitive pricing contributed to spread compression on deposits and residential mortgages.

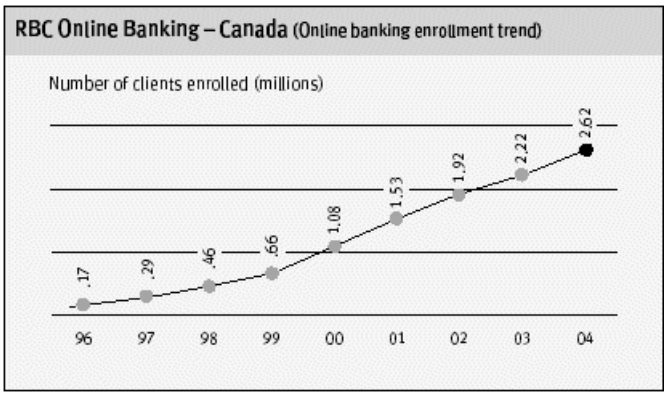
Selected highlights (1)

(C$ millions, except percentage amounts)	%change	2004	2003
Total revenues	3%	**$ 6,329**	$ 6,165
Average residential mortgages (2)	11	**80,300**	72,600
Average personal loans	12	**27,000**	24,200
Average personal deposits	5	**87,700**	83,700
Average business loans and acceptances	2	**33,900**	33,300
Average business deposits	8	**34,300**	31,700
Average card balances	14	**7,900**	6,900
Card spending volumes	16	**34,900**	30,200
Number of:			

Employees (full-time equivalent)	1	**31,244**	30,865
Automated banking machines	(2)	**3,999**	4,062
Branches	(1)	**1,098**	1,104
Online banking clients	18	**2,619,800**	2,219,100

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

(2) Includes loans originated and serviced by RBC Royal Bank that have been securitized.



RBC BANKING — UNITED STATES

Our personal and commercial banking business in the United States is conducted through RBC Centura. Headquartered in Rocky Mount, North Carolina, RBC Centura serves individual and business clients in the Southeast United States.

In 2004, RBC Centura expanded its reach by acquiring the 13 Florida branches of Ohio-based Provident Financial Group Inc. We also opened 21 new branches in Atlanta, various locations in Florida, and other high-growth markets. We plan to further optimize our branch network by continuing to open new branches selectively in high-growth markets and also by closing 10 low-return branches in 2005. In addition, we strengthened our product capabilities, including the Home Equity Line of Credit, Homebuyer Rewards package and RBC Access USA cross-border services, and expanded our sub-segment expertise focused on health care professionals, executives, and Canadian "Snowbirds" and other cross-border clients. RBC Builder Finance, a financing division of RBC Centura serving home builders and developers, increased its new loan commitments by 39% in 2004, leveraging its 35 loan production offices serving over 90 markets across the United States.

The U.S. platform of RBC Banking also includes RBC Mortgage, a mortgage originator increasingly focused on new purchase business versus refinancings. As part of the business realignment, we are in the process of closing 38 of RBC Mortgage's 213 branches, with an additional 9 branches to be closed in 2005. In January 2005, the Chicago headquarters of RBC Mortgage will be closed and the operations transferred to its Houston office, which was the base of Sterling, acquired in September 2003.

In 2004, RBC Mortgage strengthened its loan origination processes and technology and extended its reach through new Affiliated Business Arrangements, joint ventures with home builders and realtors to provide new home mortgages directly to homebuyers.

Financial performance

Total revenues declined $248 million or 20% from last year. The strengthening of the Canadian dollar relative to the U.S. dollar (which reduced the translated value of revenues) accounted for $93 million of the decline. In U.S. dollars, total revenues decreased US$107 million or 12%, with RBC Centura and RBC Mortgage down US$46 million or 7% and US$61 million or 35%, respectively. Strong loan growth at RBC Centura was more than offset by lower returns in its investment portfolio due to lower yields as the portfolio was reinvested into higher-quality but lower-yielding instruments at the end of 2003. RBC Mortgage revenue was negatively affected by lower margins and an industry-wide decline in origination volumes from exceptionally high levels in 2003 when low interest rates drove a mortgage refinance boom. These declines were partially offset by the inclusion of a full year of revenues for Sterling in 2004 compared to one month of revenues in 2003.

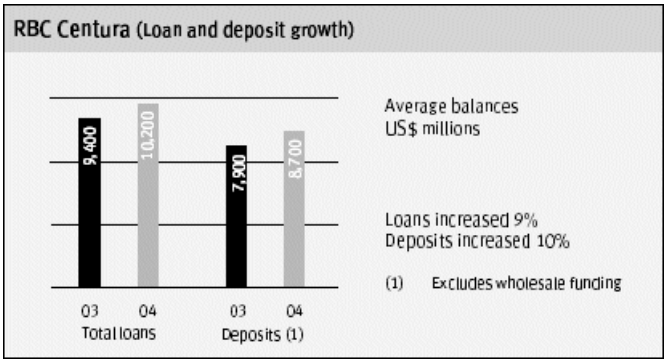
Selected highlights (1)

(C$ millions, except percentage amounts)	%change	2004	2003
Total revenues	(20)%	**$ 1,016**	$ 1,264
Average residential mortgages	(10)	**3,800**	4,200
Average personal loans	3	**3,400**	3,300
Average personal deposits	—	**8,000**	8,000
Average business loans and acceptances	3	**9,000**	8,700
Average business deposits	3	**6,000**	5,800
Average card balances	—	**100**	100
Card spending volumes	—	**400**	400
Mortgage originations ($ billions)	(47)	**22.5**	42.6
Number of:			
Employees (full-time equivalent)	—	**5,430**	5,444
Automated banking machines	9	**304**	279
Branches (2)	14	**275**	242
Online banking clients (3)	(33)	**70,300**	104,500

(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.

(3) Certain inactive clients were not transferred to a new technology platform in 2004.



RBC BANKING — 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.

Financial performance

Total revenues fell $15 million or 7% from last year, due to the strengthening of the Canadian dollar relative to the U.S. dollar and certain Caribbean currencies.

Selected highlights

(C$ millions, except percentage amounts)	%change	2004	2003
Total revenues	(7)%	**$ 208**	$ 223
Number of:			
Employees (full-time equivalent)	4	**1,210**	1,166
Automated banking machines	15	**69**	60
Branches	—	**43**	43

RBC INVESTMENTS

Overview

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.

Effective November 1, 2004, Canadian operations within RBC Investments became part of the new Canadian personal and business segment while the U.S. and international operations became part of the new U.S. and international segment.

Industry profile

Wealth management remains a highly competitive business with numerous large and boutique firms serving the North American market. Volatile capital markets and the rising costs of managing the regulatory and compliance requirements of the industry continue to encourage consolidation. However, consolidation in the Canadian mutual fund industry has not significantly altered the competitive landscape as players continue to expand their distribution channels.

Our strengths

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

2005 outlook

Based on our expectation that in both Canada and the U.S., investor confidence and capital markets performance will continue to improve modestly, we expect moderate revenue growth in all of our businesses in 2005, and expense growth below that of revenue growth in light of our cost-containment efforts.

Financial performance

Net income increased $78 million or 19% in 2004, primarily driven by improved earnings in U.S. and Canadian brokerage and asset management businesses, as well as from Global Private Banking. These increases more than offset the effect of the strengthening of the Canadian dollar relative to the U.S. dollar in 2004, which reduced net income by $29 million. U.S. net income was up $30 million from a year ago, with significant growth in transaction-based and asset value based fee revenues in the full-service brokerage business and lower retention compensation costs at RBC Dain Rauscher.

Total revenues increased $221 million or 6%, reflecting higher transaction-based and asset value based fee revenues from the U.S. and Canadian brokerages and larger asset balances in the asset management businesses. This growth more than offset the impact of the strengthening of the Canadian dollar relative to the U.S. dollar, which reduced the translated value of U.S. dollar-denominated revenues by $188 million.

The $104 million or 4% increase in non-interest expense largely reflected higher variable compensation costs associated with revenue growth and pension, postretirement and benefit costs. These increases were partly offset by a $147 million reduction in the translated value of U.S. dollar-denominated expenses due to the stronger Canadian dollar, and a $32 million decline in retention compensation costs at RBC Dain Rauscher.

ROE improved 330 basis points to 18.4%, reflecting higher earnings in 2004.

Results

(C$ millions, except percentage amounts)	%change	2004	2003
Net interest income	2%	**$ 429**	$ 419
Non-interest income	7	**3,322**	3,111
Total revenues	6	**3,751**	3,530
Provision for credit losses			
Allocated specific	n.m.	**4**	(2)
Total	n.m.	**4**	(2)
Non-interest expense	4	**3,015**	2,911
Business realignment charges	n.m.	**17**	—
Net income before income taxes	15	**715**	621

Income taxes	8	**225**	209
Net income	19%	**$ 490**	$ 412
U.S. net income	34%	**$ 118**	$ 88
Net income as a % of total group net income	300 bp	**17%**	14%
ROE	330 bp	**18.4%**	15.1%
Average allocated common equity(1)	(2)%	**2,600**	2,650
Number of employees (full-time equivalent)	3%	**10,748**	10,464

(1) Calculated using methods intended to approximate the average of the daily balances for the period. Attributed to the segment as discussed on page 29.

n.m. not meaningful

REVIEW BY DIVISION — RBC INVESTMENTS

CANADA

Wealth Management Canada

This group includes Dominion Securities (full-service brokerage) and Action Direct (self-directed brokerage), which serve investors requiring advisor-based comprehensive financial solutions and self-managed investors, respectively. 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, Private Counsel, Trust Services and Private Banking serve high net worth clients across Canada, offering a relationship management approach for clients in need of sophisticated financial solutions. There are more than 25 investment counsellors, 65 trust officers and 50 private bankers in locations across the country. Financial Planning serves more than 381,000 branch-based clients with over $56 billion in investment and credit balances. There are approximately 1,000 relationship financial planners and more than 480 commission-based investment and retirement planners who are financial planners and also licensed mutual fund salespeople. Financial Planning and Private Banking are businesses operated jointly with RBC Banking, and RBC Investments reports the financial results from its share of these businesses within Wealth Management Canada.

Global Asset Management

This unit is responsible for our proprietary asset management business in Canada and the United States. In Canada, RBC Asset Management directly manages more than $49 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 and balanced funds and Canadian, U.S. and global equity funds, as well as alternative investments. RBC Asset Management enjoyed industry-leading total and long-term net sales in 2004 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 continued gains in market share. In the U.S., Voyageur Asset Management achieved a record US$25 billion in assets under management (AUM) as at October 31, 2004.

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 over 1,750 financial consultants serving individual clients from coast to coast and a fixed income business with more than 375 investment bankers, sales representatives and traders serving institutional and retail clients nationwide. In addition, we have a clearing and execution services group that serves small to mid-sized independent broker-dealers and institutions.

INTERNATIONAL

Global Private Banking

Operating under the brand name Royal Bank of Canada Global Private Banking, this division provides private banking, trust, investment management and investment advisory solutions to high net worth clients in more than 100 countries from 24 offices around the world. Focused on clients with assets of more than US$1 million, Global Private Banking provides an integrated offering based on the foundations of strong personal relationships, expertise, advice and choice.

Financial performance by division

Higher transaction-based and asset value based fee revenues largely drove the $169 million or 14% increase in revenues from the wealth management businesses in Canada, reflecting a strong Canadian registered retirement savings plan (RRSP) season in 2004 and the benefits of market appreciation. Global Asset Management revenues were higher as a result of strong sales and capital appreciation in mutual funds and managed portfolios. RBC Dain Rauscher revenues increased $15 million or 1% despite the strengthening of the Canadian dollar relative to the U.S. dollar, as performance in both its full-service brokerage and fixed income businesses improved. Global Private Banking revenues grew $11 million mainly due to stronger brokerage activities.

The assets under administration (AUA) of the wealth management businesses in Canada improved 8% from 2003 as a result of capital market appreciation early in 2004 as well as strong sales. RBC Dain Rauscher's AUA balance grew 5% in 2004 as a result of market appreciation, which more than offset 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$14 billion or 14%. Global Private Banking's personal AUA was also affected by the stronger Canadian dollar, which lowered the translated value of U.S. dollar-denominated assets. Institutional AUA declined 33% primarily due to the loss of a large client in the second quarter of 2004.

Higher AUM balances were primarily a result of strong mutual fund sales and capital market appreciation. During the year, $1 billion of personal AUM was transferred to AUA due to a change in client strategy.

Total revenues

(C$ millions, except percentage amounts)	%change	2004	2003
RBC Dain Rauscher	1%	**$1,628**	$1,613
Wealth Management Canada	14	**1,339**	1,170
Global Private Banking	3	**421**	410

Global Asset Management	7	**363**	340
Other	n.m.	**—**	(3)
	6%	**$3,751**	$3,530

n.m. not meaningful

Assets under administration (AUA)

(C$ millions, except percentage amounts)	%change	2004	2003
Personal			
Wealth Management Canada	8%	**$147,585**	$136,910
RBC Dain Rauscher	5	**135,070**	128,150
Global Private Banking	1	**50,320**	49,590
	6	**332,975**	314,650
Institutional — Global Private Banking	(33)	**52,170**	77,520
	(2)%	**$385,145**	$392,170

Assets under management (AUM)

(C$ millions, except percentage amounts)	%change	2004	2003
Mutual funds	9%	**$57,520**	$52,620
Institutional	3	**20,220**	19,690
Personal	(10)	**15,240**	17,010
	4%	**$92,980**	$89,320

RBC INSURANCE

Overview

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.

Effective November 1, 2004, our global insurance businesses, which include Canadian, U.S. and international operations, became part of the new Canadian personal and business segment.

Industry profile

The Canadian life insurance industry is dominated by three large Canadian companies and generates almost $50 billion in premiums annually. The property and casualty market in Canada is more fragmented. 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 continues to be a growth 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 smaller and niche companies.

Key industry trends that continue to affect the insurance sector include ongoing consolidation, further convergence of banking, insurance and investment products, increased government regulation and oversight as well as the impact of technology. In addition, consumer product preferences are shifting to reflect demographic and economic changes and are also creating new distribution opportunities.

Our strengths

- A diverse set of products designed to meet a wide range of consumer needs
- Market leadership in a number of Canadian insurance markets, including travel and individual living benefits insurance
- Multiple distribution channels, which are supported by strong infrastructure and sales expertise
- Access, as part of RBC Financial Group, to a broad range of distribution channels, client bases and financial services as well as the benefit of a strong brand and infrastructure
- An integrated global insurance operation

2005 outlook

Performance in our business is influenced by our policyholder claims experience, geopolitical events, the general economic and interest rate environment, and credit risk considerations related to our investment portfolios. Our outlook is for revenue growth to continue, driven by demographic trends, reasonable economic growth in Canada and the U.S., and new products and markets with a particular focus on wealth management and living benefits solutions. We will also focus on opportunities for efficiencies from integrating insurance operations with RBC's Canadian retail businesses as well as increased opportunities in the Canadian group and living benefits markets, as a result of our acquisition in May 2004 of UnumProvident, a subsidiary of UnumProvident Corporation.

Financial performance

Net income was up $43 million or 19% from a year ago, reflecting higher earnings from the Canadian life and health operations (which now include UnumProvident), the home and auto business and the U.S. operations. Despite growth in the reinsurance operations, earnings from this business were relatively unchanged from last year, as a result of higher claims costs in the property reinsurance business associated with the recent hurricanes in the Southeast United States and the Caribbean.

As of August 1, 2004, the acquired business of UnumProvident, which consists predominantly of living benefits products for individuals and groups, has been integrated with the existing Canadian life and health operations.

Our 2003 results included a significant block of reinsurance business that was not renewed in 2004. This block of business contributed $182 million to total revenues and $183 million to policyholder benefits, claims and acquisition expenses, reducing net income by $1 million in 2003.

Results

(C$ millions, except percentage amounts)	%change	2004	2003
Non-interest income			
Net earned premiums (1)	6%	**$ 1,671**	$1,576
Investment income	26	**399**	317
Fee income	30	**197**	152
Insurance premiums, investment and fee income	11	**2,267**	2,045
Insurance policyholder benefits, claims and acquisition expense	7	**1,509**	1,404

Non-interest expense	11	**472**	424
Business realignment charges	n.m.	**8**	—
Net income before income taxes	28	**278**	217
Income taxes	n.m.	**7**	(11)
Net income	19%	**$ 271**	$ 228
U.S. net income	63%	**$ 13**	$ 8
Net income as a % of total group net income	200 bp	**10%**	8%
ROE	(110) bp	**25.3%**	26.4%
Gross premiums and deposits	16%	**$ 3,185**	$2,753
Average assets (2)	36	**12,100**	8,900
Average allocated common equity (2), (3)	24	**1,050**	850
Number of employees (full-time equivalent)	24%	**3,575**	2,883

(1) Net of reinsurance premiums.

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

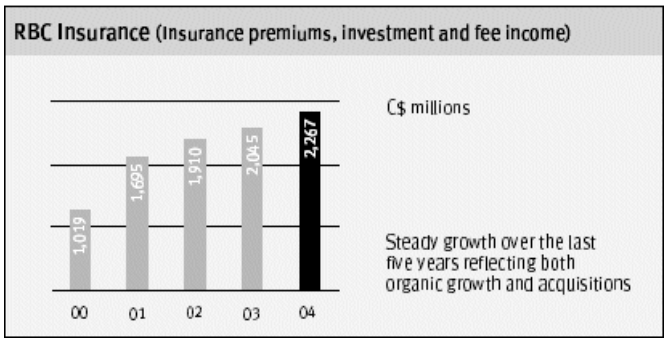
(3) Attributed to the segment as discussed on page 29.

n.m. not meaningful

Insurance premiums, investment and fee income was up $222 million or 11% over a year ago, primarily reflecting growth in the Canadian life and health operations (principally from UnumProvident) and the home and auto business, which more than offset the loss of revenues of $182 million from the non-renewed block of reinsurance business. As a result of the growth mentioned above, policyholder benefits, claims and acquisition expense increased $105 million or 7% from a year ago, despite a reduction related to the non-renewed block of reinsurance business, which had contributed $183 million to policyholder benefits, claims and acquisition expense in 2003.

Non-interest expense increased $48 million or 11% from a year ago, largely reflecting an increase in the number of employees to support business growth, including that from the UnumProvident acquisition.

Despite the growth in earnings, ROE decreased to 25.3%, reflecting the higher average allocated common equity attributed to this segment primarily resulting from the acquisition of UnumProvident.



REVIEW BY DIVISION — RBC INSURANCE

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, we distribute life and health insurance products through more than 17,000 independent brokers affiliated with producer groups, financial planning firms and stock brokerage firms, as well as through direct sales and a network of approximately 500 career sales representatives. In the U.S., we offer life and health insurance, annuities and related personal financial security solutions to consumers through regional and independent broker-dealers, national marketing organizations, banking and investment channels, the Internet, other direct marketing channels and a field force of over 400 full-time sales agents.

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. Our travel insurance business provides a wide range of products and services, including trip cancellation, interruption and emergency assistance services, to clients in Canada and the United States. These products are distributed through a network of travel agencies, as well as over the Internet and, in Canada, through bank channels and brokers.

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.

FEE BUSINESSES

We are involved in a number of key insurance and related activities that generate fee and other income, including travel assistance services, credit and trade 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 credit and trade 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, through Liberty Insurance Services Corporation (LIS), include the Business Process Outsourcing and Software Solutions divisions and provide underwriting, billing, collection, claims processing and web-enabled software for life, health, annuity and reinsurance administration. On November 23, 2004, we announced that IBM had agreed to acquire LIS. The transaction is expected to close by December 31, 2004, subject to the satisfaction of customary conditions including the receipt of regulatory approvals. In addition, IBM and RBC Insurance have agreed to enter into a long-term agreement for IBM to perform key business processes for RBC Insurance's U.S. operations, including contact centre management, policy administration, claims management and payment receipt and reconciliation.

Financial performance by division
Life:

Growth in insurance premiums, investment and fee income of $348 million was driven by the Canadian life and health operations (principally from UnumProvident). Similarly, the 11% increase in the number of Canadian policies and certificates reflects growth in the Canadian life and health operations (which now includes UnumProvident), which more than offset the decline in the number of U.S. policies in force due to increased policy surrenders. Average assets increased 47%, reflecting the UnumProvident acquisition as well as growth in our U.S. fixed annuity business. The number of sales agents decreased 33%, reflecting our continued efforts to improve productivity in this distribution channel.

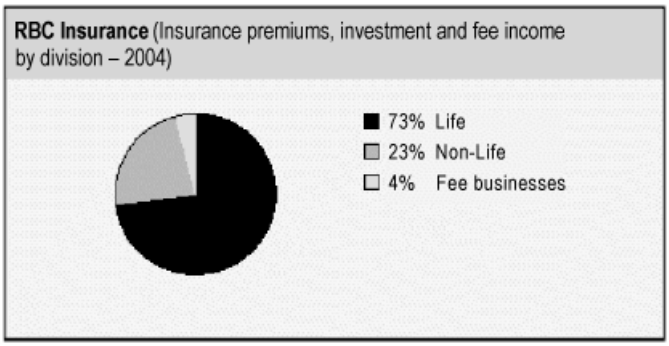
Non-life:

Continued growth in the number of new home and auto policies in force reflecting both sales to new customers and strong retention of existing policyholders from the home and auto business drove the $80 million increase in insurance premiums, investment and fee income.

Fee businesses:

Our 2003 revenues included a significant block of reinsurance business that was not renewed in 2004. This block of business contributed $182 million to insurance premiums, investments and fee income.

The decrease in average assets also reflects the non-renewed reinsurance contract. Additionally, U.S. outsourcing revenue declined as there were fewer policies under administration and as several contracts were renewed at lower prices. As discussed on page 36, we announced the sale of the LIS fee businesses in the U.S., subsequent to the end of fiscal 2004.



Selected highlights

(C$ millions, except percentage amounts)	%change	2004	2003(1)
Life			
Insurance premiums, investment and fee income	27%	**$ 1,661**	$1,313
Average assets (2)	47	**11,000**	7,500
Number of:			
Life and health policies in force and certificates in Canada (thousands)	11	**4,276**	3,850
Life policies in force in the U.S. (thousands)	(10)	**1,976**	2,185
Sales agents (U.S. and Canada)	(33)	**847**	1,268
Non-life			
Insurance premiums, investment and fee income	18%	**$ 516**	$ 436
Average assets (2)	(10)	**900**	1,000
Number of:			
Home and auto — personal lines policies in force (thousands)	46	**193**	132
Travel — coverages (thousands)	(11)	**2,121**	2,388
Fee businesses			
Insurance premiums, investment and fee income	(70)%	**$ 90**	$ 296
Average assets (2)	(50)	**200**	400
Number of:			
Assistance services — calls (thousands)	14	**766**	670
Policies under administration in the U.S. (thousands)	(9)	**3,556**	3,925

(1) The Canadian operations reported 13 months of results in 2003 as a result of a change in its reporting period from September 30 to October 31 to be consistent with our fiscal year. The net impact on our financial results in 2003 due to the extra month was immaterial.

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

RBC Capital Markets

Overview

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.

Effective November 1, 2004, the new global capital markets segment includes RBC Capital Markets as well as the business serving larger commercial clients that is being transferred from RBC Banking. As part of the realignment, we are also reorganizing our business divisions within the new segment. The operations of Global Treasury Services and Global Financial Products (described on page 38) will be merged into a new Global Markets division, which will include all of our debt market, money market, foreign exchange, derivative, alternative assets and proprietary trading businesses. Global Investment Banking will be combined with our equity sales and trading capabilities into Global Investment Banking Equity Markets. The newly formed Global Research division will combine our economics and research staff in all product areas, while Global Credit will remain relatively unchanged.

Industry profile

The Canadian wholesale financial services market is mature and, as a result, many Canadian firms are seeking growth opportunities outside 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. 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
- Demonstrated capabilities in specialized markets including alternative assets, structured products and proprietary trading

2005 outlook

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. Our expectation is that capital markets performance will improve modestly in 2005, resulting in moderate revenue growth. We also expect to maintain our discipline with respect to credit risk, and refocus our attention on cost control.

Financial performance

Full year net income increased $167 million or 34% from last year due to solid performance in investment banking, higher returns from private debt and equity investments and a significantly lower provision for credit losses.

As discussed in Critical accounting policies and estimates on page 28, variable interest entities (VIEs) required consolidation under FIN 46R, effective the first quarter of this year. The consolidation of VIEs in 2004 added $34 million to revenues and $36 million to non-interest expense, with the net impact of $2 million attributable to non-controlling interest.

Total revenues increased $214 million or 8%, reflecting higher returns on private debt and equity investments and higher investment banking revenues. These increases more than offset a $118 million reduction in the translated value of U.S. dollar-denominated revenues as a result of the stronger Canadian dollar in 2004 and lower total trading revenues, primarily in the fixed income businesses. Trading revenues recorded in net interest income increased $227 million, while trading revenues recorded in non-interest income declined $304 million.

Non-interest expense was up $381 million or 23% compared to last year. The increase in non-interest expense reflects a $74 million after-tax charge relating to Rabobank settlement costs net of a related reduction in compensation, higher variable compensation, the consolidation of VIEs, legal costs associated with ongoing Enron litigation and costs relating to the relocation of RBC Capital Markets' London office. These increases more than offset the $65 million reduction in the translated value of U.S. dollar-denominated expenses due to the stronger Canadian dollar.

The $269 million decline in the provision for credit losses reflects better credit conditions, higher recoveries of credit losses and an $85 million reversal of the general allowance in 2004.

ROE improved 610 basis points to 18.7% due to higher net income as well as a $300 million reduction in average allocated common equity attributed to this segment, as discussed on page 29.

Results

(C$ millions, except percentage amounts)	%change	2004	2003
Net interest income	67%	**$ 716**	$ 428
Non-interest income	(3)	**2,123**	2,197
Total revenues	8	**2,839**	2,625
Provision for credit losses			
Allocated specific	(97)	**5**	189
Allocated general and unallocated	n.m.	**(85)**	—
Total	(142)	**(80)**	189
Non-interest expense	23	**2,052**	1,671
Business realignment charges	n.m.	**25**	—
Net income before income taxes	10	**842**	765
Income taxes	(33)	**182**	271
Non-controlling interest	(33)	**2**	3
Net income	34%	**$ 658**	$ 491
U.S. net income	(30)	**$ 86**	$ 122
Net income as a % of total group net income	700 bp	**23%**	16%
ROE	610 bp	**18.7%**	12.6%
Average assets (1)	17%	**234,000**	199,300
Average loans and acceptances (1)	26	**29,000**	23,000
Average deposits (1)	8	**80,900**	74,600
Average allocated common equity (1), (2)	(8)	**3,500**	3,800
Credit information			
Nonaccrual loans	(44)%	**$ 405**	$ 718
Net charge-offs	9	**194**	178
Net charge-offs as a % of average loans and acceptances	(10) bp	**.67%**	.77%
Number of employees (full-time equivalent)	6%	**3,084**	2,912

(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 29.

n.m. not meaningful

REVIEW BY DIVISION — RBC CAPITAL MARKETS

GLOBAL INVESTMENT BANKING

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 sponsor/ Private Equity investor coverage.

In Canada, we 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 are focused on select industries – specifically technology, telecommunication, health care, energy, consumer products, mid-sized financial institutions and real estate. We differentiate ourselves in 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. Our product offering includes leading-edge electronic trading systems as clients are increasingly demanding access to 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. Alternative Investments was formed in June 2002 with a mandate to expand our wholesale asset management capabilities, which today includes structuring hedge fund transactions. In 2004, this business was moved into the Global Financial Products division. The alternative asset business provides non-traditional investment opportunities to high net worth individuals, corporations and institutional clients. These investment options include hedge funds, and can extend to other vehicles such as Collateralized Debt Obligations.

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, Sydney, Tokyo, Singapore and our recently opened Hong Kong office. Global Treasury Services continues to lead in technological development of e-trading solutions; this year, MM Direct, our electronic deposit system, joined FX Direct, expanding our e-trading platform.

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 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.

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.

Financial performance by division

Revenues from Global Financial Products were up $189 million or 17% reflecting higher returns from private debt and equity investments and strong revenues from structured products. Higher revenues were also achieved in the alternative assets business reflecting higher asset levels, while revenues from proprietary equity trading activities were lower than last year, largely due to the appreciation of the Canadian dollar relative to the U.S. dollar. The consolidation of VIEs added $34 million to the revenues of Global Financial Products in 2004, most of which related to the consolidation of certain multi-seller conduits. Global Investment Banking revenues were up $105 million or 19% due to higher levels of equity and debt underwriting in Canada and the U.S., as well as higher fund of fund distributions in 2004. Although Global Equity revenues from equity sales were up in Canada, and revenues from new equity issues rose globally, this growth was offset by the impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated revenues. Global Treasury Services revenues were lower by $22 million or 4% in 2004, despite higher revenues from derivatives and commodities products during the year, primarily due to lower results in the foreign exchange sales and trading business, which was negatively affected by the strengthening of the Canadian dollar throughout 2004. Revenues from Global Credit were down $58 million reflecting our continued intentional reduction of the non-strategic loan portfolio.

Overall, revenues in each of the divisions 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 $118 million.

The increase in average assets in Global Financial Products related to growth in the securities inventories of the global debt markets and global equity derivatives trading books and the related securities borrowing activities. The higher trading securities inventories also reflected continued growth in the hedge fund business. In addition, average assets in Global Financial Products included the impact of consolidation of certain securitization conduits for the period commencing in April 2004. The growth in average assets in Global Investment Banking was related to an increase in non-investment grade loans to clients in the United States. Global Treasury Services recorded growth in average assets primarily in the equity and securities finance businesses. The average of the derivative-related amounts relating to Global Treasury Services and Global Financial Products derivative trading activity declined moderately during the year. The year-over-year decrease in average assets for Global Credit of $1.7 billion or 35% is a result of the intentional reduction of the non-strategic loan portfolio as well as the effect of the stronger Canadian dollar on the translated value of U.S. dollar-denominated assets.

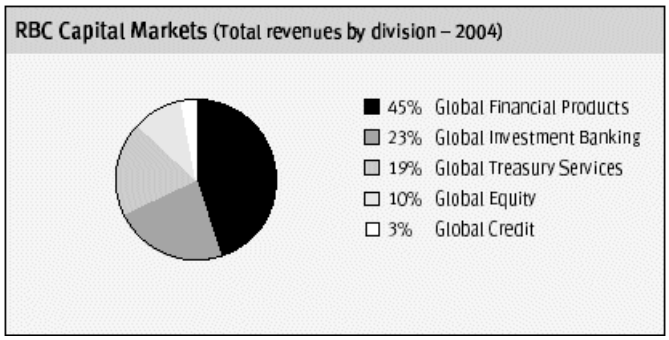
Total revenues

(C$ millions, except percentage amounts)	% change	2004	2003
Global Financial Products	17%	**$1,279**	$1,090
Global Investment Banking	19	**648**	543
Global Treasury Services	(4)	**532**	554
Global Equity	—	**298**	298
Global Credit	(41)	**82**	140
	8%	**$2,839**	$2,625

Average assets (1)

(C$ millions, except percentage amounts)	% change	2004	2003
Global Financial Products	28%	**$131,500**	$103,100
Global Investment Banking	9	**5,800**	5,300
Global Treasury Services	9	**93,100**	85,400
Global Equity	(33)	**400**	600
Global Credit	(35)	**3,200**	4,900
	17%	**$234,000**	$199,300

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



RBC GLOBAL SERVICES

Overview

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 Institutional & Investor Services, Global Financial Institutions and Treasury Management & Trade, which are described in detail on pages 40–41. RBC Global Services also includes RBC's 50% interest in the Moneris Solutions joint venture with Bank of Montreal for merchant card processing.

Effective November 1, 2004, the Institutional & Investor Services and Global Financial Institutions divisions of RBC Global Services became part of the new global capital markets segment. The Treasury Management & Trade division became part of the new Canadian personal and business segment.

Industry profile

The transaction processing businesses are highly competitive and relatively mature in the Canadian market. Scale is a critical success factor and is required to support the significant investment in technology required to introduce new products and services and enhance operational efficiencies. The quality of client service and strength of client relationships are also key differentiating factors in retaining and attracting new business. Monoline specialists, with domestic and global capability, compete against traditional financial institutions. Market consolidation continued in 2004, particularly in merchant card processing and custody, which are businesses requiring global capability and scale.

Our strengths

- We have a market share leadership position in Canada in these businesses as measured by assets under administration (AUA), transactions processed 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 Investor* magazine's 2004 Global Custody Survey, which ranked us as the best overall global custodian; Stewart and Associates' 2004 Survey of Bank Fees, which rated our cash management services first overall in Canada for quality of service for the fifth year in a row; and our recognition by *Global Finance* magazine as best trade finance bank in Canada for 2004
- We continue to develop and deploy new technology and client service solutions

2005 outlook

Our revenue across all divisions is primarily derived from fee-based services and transaction fees. Interest earned on deposit and cash balances, foreign exchange fees and fees earned on client assets are variable sources of revenue that are influenced by capital markets performance and the interest rate environment. For 2005, we anticipate that our net interest income should remain stable as interest rates are expected to stay at current levels through much of the year. We expect modestly rising capital markets in 2005 to have a favourable impact on our revenue streams particularly in the Institutional & Investor Services division.

Financial performance

Full year net income was up $46 million or 26%, reflecting strong earnings growth in all divisions, as revenues grew significantly more than expenses, and also reflecting a reversal of the general allowance and recoveries in the provision for credit losses totalling $19 million.

Total revenues increased $75 million or 9%. The increase in revenues was largely due to growth in fee-based revenues in Institutional & Investor Services as well as higher net interest income driven by deposit balance growth in Global Financial Institutions and Treasury Management & Trade, which more than offset the adverse impact of a lower interest rate environment. In addition, stronger earnings from Moneris Solutions also contributed favourably to revenue growth.

Non-interest expense was $30 million or 5% higher in 2004, largely due to higher pension and postretirement benefit and other compensation costs, as well as increased costs incurred to support the growth in business activity.

The provision for credit losses decreased $21 million primarily due to a reversal of the general allowance for credit losses of $14 million in the first quarter and the sale of credit facilities in the second and fourth quarters of 2004.

ROE improved 760 basis points in 2004 to 35.3% as a result of the higher earnings.

Results

(C$ millions, except percentage amounts)	% change	2004	2003
Net interest income	8%	**$ 177**	$ 164
Non-interest income	9	**742**	680
Total revenues	9	**919**	844
Provision for credit losses			
Allocated specific	n.m.	**(5)**	2
Allocated general and unallocated	n.m.	**(14)**	—
Total	n.m.	**(19)**	2
Non-interest expense	5	**625**	595
Business realignment charges	n.m.	**3**	—
Net income before income taxes	26	**310**	247
Income taxes	25	**86**	69
Net income	26%	**$ 224**	$ 178
U.S. net income	14	**$ 8**	$ 7

Net income as a % of total group net income	200 bp	**8%**	6%
ROE	760 bp	**35.3%**	27.7%
Average allocated common equity (1)	—	**650**	650
Credit information			
Nonaccrual loans	(95)%	**$ 1**	$ 19
Net charge-offs	60	**8**	5
Net charge-offs as a % of average loans and acceptances	26 bp	**.62%**	.36%
Number of employees (full-time equivalent)	(2)%	**2,504**	2,550

(1) Calculated using methods intended to approximate the average of the daily balances for the period. Attributed to the segment as discussed on page 29.

n.m. not meaningful

REVIEW BY DIVISION

INSTITUTIONAL & INVESTOR SERVICES

Institutional & Investor Services is Canada's largest custodian as measured by AUA, and a provider of investment administration services, including foreign exchange and securities lending, to corporate and institutional investors worldwide. We operate from 12 locations throughout the world, with a global custody network spanning 79 markets.

GLOBAL FINANCIAL INSTITUTIONS

A comprehensive range of correspondent banking services is provided to banks globally and to broker-dealers within Canada, including cash management, payments and clearing.

TREASURY MANAGEMENT & TRADE

Treasury Management & Trade provides cash management, payment and trade services to corporate, business and public sector markets in Canada. Our trade team provides Canadian and foreign importers and exporters with a variety of trade products, services and counsel. Our cash management group provides a full range of solutions to clients including disbursements, collections and information products. Through our web-based delivery platform, RBC Express, clients have access to an increasing number of cash management and payment services. Our payments centre processes a high volume of domestic and international payment services for clients and is the largest processor of Canadian dollar payments in Canada. Through Moneris Solutions we provide merchants with debit and credit card transaction processing services.

Financial performance by division
Institutional & Investor Services:

Total revenues increased $38 million or 9% driven by strong growth in foreign exchange and securities lending fees. The higher AUA balance in 2004 reflects the positive impact of new business and the overall strengthening of global capital markets in 2004.

Global Financial Institutions:

Total revenues increased by $4 million or 4% due to growth in net interest income driven by higher deposit balances, which more than offset the adverse impact of the continued low interest rate environment.

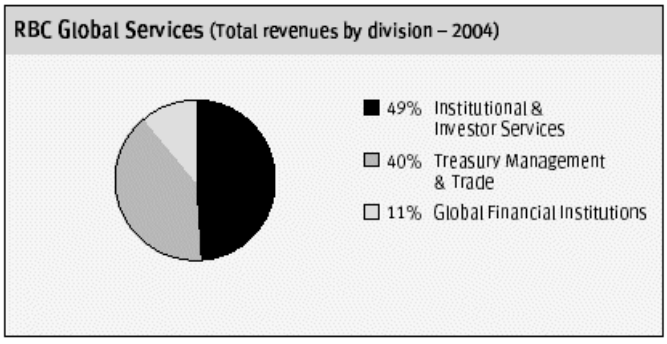
Treasury Management & Trade:

Total revenues increased $33 million or 10% primarily due to higher earnings from Moneris Solutions, which benefited from higher transaction volumes in 2004, and to higher net interest income. The 11% growth in average deposits resulted in an increase in net interest income, which more than offset the adverse impact of the continued low interest rate environment.

Selected highlights

(C$ millions, except percentage amounts)	% change	2004	2003
Institutional & Investor Services			
Total revenues	9%	**$ 455**	$ 417
Assets under administration	9	**1,223,000**	1,122,000
Global Financial Institutions			
Total revenues	4%	**$ 100**	$ 96
Average assets (1)	–	**1,400**	1,400
Average deposits (1)	29	**2,600**	2,020
Treasury Management & Trade			
Total revenues	10%	**$ 364**	$ 331
Average deposits (1)	11	**7,500**	6,740
Payment volumes	7	**8,188**	7,634
Payment errors (per 100,000 payments)	(10)	**2.6**	2.9

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



OTHER

Overview and financial performance

The Other segment consists mainly of the Information Technology, Corporate Treasury and Corporate Resources functional groups, which are largely designed to manage and pass through cost and revenue items in their areas of responsibility.

Financial performance

Net loss for the Other segment was $91 million, down from net income of $173 million a year ago, reflecting a $230 million decrease in revenues and a $22 million increase in expenses. Also included in the net loss for 2004 were business realignment charges of $64 million.

The decline in revenues included an $83 million reduction relating to impacts of hedge and derivative accounting, a $46 million charge for equity losses on investments and a $26 million writedown of an investment in AOL Canada (a similar writedown was also recorded in RBC Banking). In addition, we incurred $68 million of consolidation adjustment charges to eliminate intercompany underwriting fees, trading gains and losses on Royal Bank of Canada securities held by subsidiaries and to partially offset a gain recorded on the sale by RBC Centura of its merchant acquiring card portfolio to Moneris Solutions in light of our 50% ownership interest in the joint venture.

The increase in non-interest expenses was largely due to costs associated with a processing disruption in the third quarter and an increase in occupancy costs resulting from a reversal in 2003 of a reserve previously established for vacant space that was subsequently subleased. The processing disruption, which occurred during a programming update to one of our computer systems, affected our ability to promptly reflect some transactions in client account balances and affected most of our business segments.

Results

(C$ millions, except percentage amounts)	% change	2004	2003
Net interest income	n.m.	**$ (155)**	$ 21
Non-interest income	(23)%	**176**	230
Total revenues	(92)	**21**	251
Provision for credit losses	n.m.	**(36)**	(28)
Non-interest expense	n.m.	**15**	(7)
Business realignment charges	n.m.	**64**	–
Net income before income taxes	(108)	**(22)**	286
Income taxes and non-controlling interest	(39)	**69**	113
Net (loss) income	(153)	**$ (91)**	$ 173
U.S. net (loss) income	n.m.	**$ (12)**	$ (3)
Net (loss) income as a % of total group net income	(800)bp	**(3)%**	5%
ROE	(1,130)bp	**(3.6)%**	7.7%
Average allocated common equity (1)	25%	**2,750**	2,200

(1) Attributed to the segment as discussed on page 29.

n.m. not meaningful

FINANCIAL PRIORITY: REVENUE GROWTH AND DIVERSIFICATION

Highlights

- Revenues up $403 million or 2%
- Net interest income up $106 million or 2%
- Net interest margin of 1.48%, down 16 basis points
- Non-interest income up $297 million or 3%
- Non-interest income 61% of total revenues, unchanged from 2003

Table 4 Total revenues

(C$ millions)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Net interest income	**$ 6,684**	$ 6,578	$ 6,869	**$ 106**	**2%**
Non-interest income	**10,666**	10,369	10,191	**297**	**3**
Total revenues	**$17,350**	$16,947	$17,060	**$ 403**	**2%**

Total revenues were up $403 million or 2% from 2003, reflecting higher insurance revenues (which now include UnumProvident), higher capital markets-related revenues other than trading (mutual fund revenues, securities brokerage commissions, underwriting and other advisory fees, investment management and custodial fees), and strong growth in loans and deposits which resulted in higher net interest income. These factors more than offset a $500 million reduction due to the strengthening of the Canadian dollar and a $169 million decline in total trading revenues (including a $396 million decline in non-interest income, which more than offset a $227 million increase in net interest income).

Outlook

We are targeting revenue growth of 6–8% in fiscal 2005 based on our expectations of improved results from U.S. banking operations, the full year impact of the UnumProvident acquisition and results from our Client First initiatives. We also expect that Canadian economic growth will be moderately higher in 2005 than in 2004, capital markets performance will improve modestly and the strengthening of the Canadian dollar exchange rate relative to the U.S. dollar will reduce our year-over-year revenues less than in 2004.

Net interest income

Net interest income was up $106 million or 2% from 2003, reflecting a $227 million increase in trading revenues included in net interest income primarily due to dividends earned as part of our arbitrage trading strategies, and average loan and deposit growth of 10% and 6%, respectively, which was partially offset by the impact of narrower margins.

As shown in Table 7 on page 44, while higher asset volumes (including residential mortgage, personal, credit card, and business and government loans) added $793 million to net interest income in 2004, changes in rates received on assets and paid on liabilities reduced net interest income by $687 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)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Average assets (1)	**$451,400**	$402,000	$371,800	**$ 49,400**	**12%**
Net interest income	**6,684**	6,578	6,869	**106**	**2**
Net interest margin (2)	**1.48%**	1.64%	1.85%	**–**	**(16)bp**

(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, the net interest margin decreased by 16 basis points in 2004 to 1.48%. This reflected spread compression on Canadian mortgages and deposits resulting from lower interest rates and competitive pricing pressures, as well as growth in capital markets-related assets that generate non-interest income.

As shown in Table 6 on page 43, while the average rate paid on total liabilities decreased by 25 basis points, the average rate received on total assets decreased by 39 basis points, leading to the 16 basis point decrease in the net interest margin. The average rate received on loans and securities decreased 67 basis points and 17 basis points,

respectively, while volumes of loans and securities were up $17.5 billion and $25.2 billion, respectively, on average. Other assets, which do not earn interest, were up $11.2 billion on average and had no significant effect on net interest margin.

Table 6 Net interest income on average assets and liabilities (1)

	Average balances (2)			Interest (3)			Average rate		
(C$ millions, except percentage amounts)	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Assets									
Deposits with banks									
Canada	**$ 615**	$ 393	$ 331	**$ 22**	$ 7	$ 6	**3.60%**	1.78%	1.81%
United States	**1,093**	2,490	2,320	**18**	37	64	**1.69**	1.49	2.76
Other International	**3,898**	4,405	2,473	**102**	67	89	**2.60**	1.52	3.60
	5,606	7,288	5,124	**142**	111	159	**2.54**	1.52	3.10
Securities									
Trading account	**94,912**	77,248	73,918	**2,603**	2,049	2,115	**2.74**	2.65	2.86
Available for sale	**43,504**	35,993	28,898	**854**	976	1,060	**1.96**	2.71	3.67
	138,416	113,241	102,816	**3,457**	3,025	3,175	**2.50**	2.67	3.09
Assets purchased under reverse repurchase agreements	**39,540**	42,779	37,494	**531**	806	688	**1.34**	1.88	1.83
Loans (4)									
Canada									
Residential mortgage	**75,722**	69,911	65,901	**3,903**	3,896	3,903	**5.15**	5.57	5.92
Personal	**31,217**	25,614	25,394	**1,813**	1,837	1,734	**5.81**	7.17	6.83
Credit card	**6,282**	5,197	4,354	**674**	615	519	**10.74**	11.83	11.92
Business and government	**33,052**	28,144	29,423	**1,504**	1,731	1,195	**4.55**	6.15	4.06
	146,273	128,866	125,072	**7,894**	8,079	7,351	**5.40**	6.27	5.88
United States	**28,484**	28,754	30,307	**1,255**	1,388	1,791	**4.41**	4.83	5.91
Other International	**12,428**	12,082	11,539	**670**	572	1,225	**5.39**	4.73	10.62
	187,185	169,702	166,918	**9,819**	10,039	10,367	**5.25**	5.92	6.21
Total interest-earning assets	**370,747**	333,010	312,352	**13,949**	13,981	14,389	**3.76**	4.20	4.61
Non-interest-bearing deposits with banks	**2,778**	1,947	1,753	**–**	–	–	**–**	–	–
Customers' liability under acceptances	**6,047**	6,838	8,515	**–**	–	–	**–**	–	–
Other assets	**73,650**	62,411	51,465	**–**	–	–	**–**	–	–
Allowance for credit losses	**(1,822)**	(2,206)	(2,285)	**–**	–	–	**–**	–	–
Total assets	**$451,400**	$402,000	$371,800	**$13,949**	$13,981	$14,389	**3.09%**	3.48%	3.87%
Liabilities and shareholders' equity									
Deposits (5)									
Canada	**$139,925**	$122,159	$111,880	**$ 3,254**	$ 3,326	$ 2,964	**2.33%**	2.72%	2.65%
United States	**38,501**	40,237	40,208	**510**	564	787	**1.33**	1.40	1.96
Other International	**68,051**	68,316	68,641	**1,446**	1,577	1,958	**2.12**	2.31	2.85
	246,477	230,712	220,729	**5,210**	5,467	5,709	**2.11**	2.37	2.59
Obligations related to securities sold short	**27,886**	22,624	19,563	**874**	839	797	**3.13**	3.71	4.07
Obligations related to assets sold under repurchase agreements	**30,125**	22,522	19,630	**430**	552	414	**1.43**	2.45	2.11
Subordinated debentures	**8,358**	6,792	7,089	**429**	376	406	**5.13**	5.54	5.73
Other interest-bearing liabilities	**8,858**	7,889	5,546	**322**	169	194	**3.64**	2.14	3.50
Total interest-bearing liabilities	**321,704**	290,539	272,557	**7,265**	7,403	7,520	**2.26**	2.55	2.76
Non-interest-bearing deposits	**22,407**	20,947	21,540	**–**	–	–	**–**	–	–
Acceptances	**6,049**	6,838	8,515	**–**	–	–	**–**	–	–
Other liabilities	**82,832**	65,010	50,626	**–**	–	–	**–**	–	–
Total liabilities	**$432,992**	$383,334	$353,238	**$ 7,265**	$ 7,403	$ 7,520	**1.68%**	1.93%	2.13%
Shareholders' equity									
Preferred	**813**	1,185	1,682	**–**	–	–	**–**	–	–
Common	**17,534**	17,481	16,880	**–**	–	–	**–**	–	–
Total liabilities and shareholders' equity	**$451,400**	$402,000	$371,800	**$ 7,265**	$ 7,403	$ 7,520	**1.61%**	1.84%	2.02%
Net interest income as a % of total average assets	**$451,400**	$402,000	$371,800	**$ 6,684**	$ 6,578	$ 6,869	**1.48%**	1.64%	1.85%
Net interest income as a % of total average interest-earning assets									
Canada	**$220,628**	$200,595	$199,066	**$ 5,027**	$ 5,120	$ 5,407	**2.28%**	2.55%	2.72%
United States	**67,563**	59,933	52,230	**1,119**	1,187	1,106	**1.66**	1.98	2.12
Other International	**82,556**	72,482	61,056	**538**	271	356	**.65**	.37	.58

Total	**$370,747**	$333,010	$312,352	**$ 6,684**	$ 6,578	$ 6,869	**1.80%**	1.98%	2.20%

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.

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

(3) Interest income includes loan fees of $338 million (2003 – $303 million; 2002 – $321 million).

(4) Average balances include nonaccrual loans.

(5) Deposits include savings deposits with average balances of $45 billion (2003 – $38 billion; 2002 -$39 billion), interest expense of $.2 billion (2003 – $.3 billion; 2002 – $.3 billion) and average rates of .53% (2003 – .78%; 2002 – .69%). Deposits also include term deposits with average balances of $170 billion (2003 – $161 billion; 2002 – $155 billion), interest expense of $4.0 billion (2003 – $4.1 billion; 2002 – $4.4 billion) and average rates of 2.37% (2003 – 2.52%; 2002 – 2.84%).

Table 7 Change in net interest income (1)

(C$ millions)	2004 vs 2003 Increase (decrease) due to changes in			2003 vs 2002 Increase (decrease) due to changes in		
	Average volume (2)	Average rate (2)	Net change	Average volume (2)	Average rate (2)	Net change
Assets						
Deposits with banks						
Canada	**$ 5**	**$ 10**	**$ 15**	$ 1	$ —	$ 1
United States	**(23)**	**4**	**(19)**	4	(31)	(27)
Other International	**(8)**	**43**	**35**	46	(68)	(22)
Securities						
Trading account	**482**	**72**	**554**	93	(159)	(66)
Available for sale	**179**	**(301)**	**(122)**	227	(311)	(84)
Assets purchased under reverse repurchase agreements	**(57)**	**(218)**	**(275)**	99	19	118
Loans						
Canada						
Residential mortgage	**311**	**(304)**	**7**	230	(237)	(7)
Personal	**361**	**(385)**	**(24)**	15	88	103
Credit card	**120**	**(61)**	**59**	100	(4)	96
Business and government	**271**	**(498)**	**(227)**	(54)	590	536
United States	**(13)**	**(120)**	**(133)**	(88)	(315)	(403)
Other International	**17**	**81**	**98**	56	(709)	(653)
Total interest income	**$ 1,645**	**$(1,677)**	**$ (32)**	$ 729	$(1,137)	$(408)
Liabilities						
Deposits						
Canada	**$ 449**	**$ (521)**	**$ (72)**	$ 278	$ 84	$ 362
United States	**(24)**	**(30)**	**(54)**	1	(224)	(223)
Other International	**(6)**	**(125)**	**(131)**	(9)	(372)	(381)
Obligations related to securities sold short	**177**	**(142)**	**35**	118	(76)	42
Obligations related to assets sold under repurchase agreements	**152**	**(274)**	**(122)**	66	72	138
Subordinated debentures	**82**	**(29)**	**53**	(17)	(13)	(30)
Other interest-bearing liabilities	**22**	**131**	**153**	65	(90)	(25)
Total interest expense	**852**	**(990)**	**(138)**	502	(619)	(117)
Net interest income	**$ 793**	**$ (687)**	**$ 106**	$ 227	$ (518)	$(291)

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.

(2) 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 8 Non-interest income

(C$ millions, except percentage amounts)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Insurance premiums, investment and fee income	**$ 2,267**	$ 2,045	$ 1,910	**$ 222**	**11%**
Trading revenues	**1,526**	1,922	1,690	**(396)**	**(21)**
Investment management and custodial fees	**1,198**	1,143	1,177	**55**	**5**
Securities brokerage commissions	**1,166**	1,031	1,187	**135**	**13**
Deposit and payment service charges	**1,050**	1,078	1,041	**(28)**	**(3)**
Underwriting and other advisory fees	**909**	813	755	**96**	**12**
Mutual fund revenues	**850**	673	723	**177**	**26**
Foreign exchange revenues, other than trading	**331**	279	274	**52**	**19**
Card service revenues	**324**	303	285	**21**	**7**
Credit fees	**224**	227	223	**(3)**	**(1)**
Securitization revenues	**196**	165	172	**31**	**19**
Gain (loss) on sale of available for sale securities	**82**	19	(112)	**63**	**332**
Mortgage banking revenues	**51**	180	240	**(129)**	**(72)**
Other	**492**	491	626	**1**	**—**
Total	**$10,666**	$10,369	$10,191	**$ 297**	**3%**

Non-interest income

As shown in Table 8 on page 44, non-interest income was up $297 million or 3% from 2003, for the reasons discussed below.

Insurance premiums, investment and fee income were up $222 million or 11%, primarily reflecting growth in the Canadian life and health operations (principally from UnumProvident) and the home and auto business, which more than offset the loss of revenues from a non-renewed block of reinsurance business in 2004. Mutual fund revenues were up $177 million or 26% reflecting growth in mutual fund assets, appreciation in the value of mutual funds and an increase in the proportion of long-term funds on which we earn higher fees. Securities brokerage commissions were up $135 million or 13% due to strong equities markets and the resultant higher client trading volumes during the year. Underwriting and other advisory fees increased by $96 million or 12% reflecting improvements in capital markets activity over 2003. Gain (loss) on sale of securities was up $63 million, reflecting gains on securities held for investments. Investment management and custodial fees were up $55 million or 5% largely reflecting increased fees from market appreciation of equities and higher volumes.

Trading revenues included in non-interest income were down $396 million or 21% primarily reflecting derivative returns associated with our arbitrage trading strategies. Mortgage banking revenues (which relate to mortgages originated in the U.S. by RBC Mortgage and RBC Centura) were down $129 million or 72% largely due to lower margins and origination volumes at RBC Mortgage from exceptionally high levels in 2003, when low interest rates drove a mortgage refinance boom. Non-interest income was reduced by $370 million due to the appreciation of the Canadian dollar relative to the U.S. dollar.

Non-interest income accounted for 61% of total revenues, unchanged from 2003.

Table 9 Trading revenues

(C$ millions, except percentage amounts)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Net interest income (1)	**$ 322**	$ 95	$ 127	**$ 227**	**239%**
Non-interest income (2)	**1,526**	1,922	1,690	**(396)**	**(21)**
Total	**$1,848**	$2,017	$1,817	**$ (169)**	**(8)%**
By product					
Equity	**$ 533**	$ 541	$ 657	**$ (8)**	**(1)%**
Fixed income and money markets (3)	**1,037**	1,175	896	**(138)**	**(12)**
Foreign exchange contracts (4)	**278**	301	264	**(23)**	**(8)**
Total	**$1,848**	$2,017	$1,817	**$ (169)**	**(8)%**

(1) Interest and dividends on trading securities, other cash instruments and trading-related derivatives and related funding charges or benefits.

(2) 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 presented in Table 9 include both trading revenues reported in non-interest income and trading-related net interest income as they are both considered in evaluating the overall revenues of our trading activities.

As shown in Table 9, total trading revenues were down $169 million or 8% in 2004. Trading revenues reported in net interest income were up $227 million or 239%, primarily due to dividends earned as part of our arbitrage trading strategies. Trading revenues reported in non-interest income were down $396 million or 21%, primarily reflecting derivative returns also associated with our arbitrage trading strategies.

Fixed income and money market trading revenues decreased by $138 million or 12% reflecting tighter spreads on client business due to competitive markets. Lower revenues were experienced in sales and trading of debt securities and money market instruments. Revenues in interest rate derivatives were stable while revenues in credit derivatives improved due to increased client volumes and higher returns on proprietary credit positions taken during the year.

Equity trading revenues decreased by $8 million or 1% despite higher revenues experienced in structured hedge fund transactions. Lower revenues were experienced in proprietary equity derivative trading businesses due primarily to the stronger Canadian dollar experienced in fiscal 2004, which negatively affected U.S. dollar-denominated revenues.

Foreign exchange trading revenues, which include foreign exchange spot, forward and derivative contracts in addition to commodity and precious metals, decreased by $23 million or 8% due primarily to the strengthening Canadian dollar, which resulted in a $25 million reduction in U.S. dollar-denominated revenues. Canadian dollar liquidity also made for difficult trading conditions. However, partially offsetting this decline were improved results from the derivatives group, which leveraged its global platform to capitalize on trading flows and market movements.

FINANCIAL PRIORITY COST CONTROL

Highlight

- Non-interest expense was up 8% from 2003

Non-interest expense

Non-interest expense was up $784 million or 8% from 2003. The increase was largely due to higher human resource expenses throughout 2004 (primarily higher benefit costs and higher variable compensation costs, driven by increases in revenues) and the Rabobank settlement costs net of a related reduction in compensation, which more than offset a $345 million reduction of non-interest expense due to the appreciation of the Canadian dollar relative to the U.S. dollar in 2004.

As shown in Table 10 below, human resource costs increased by $419 million or 7% in 2004, reflecting a $195 million or 21% increase in benefits expense, a $189 million or 9% increase in variable compensation expense and a $55 million or 2% increase in salaries. The increase in benefits costs was largely due to higher pension and postretirement benefit costs. Pension costs increased due to the amortization of prior year lower asset returns and the impact of lower discount rates. Post-retirement benefit expense increased primarily due to the amortization of actuarial losses resulting from higher claims experiences and a lower discount rate used to value other postretirement benefit liabilities in 2004 (see Note 18 on page 100). The increase in variable compensation costs resulted from stronger capital markets-related revenues in RBC Capital Markets and RBC Investments. Higher salary costs partially reflected an increase in the number of employees, largely due to acquisitions completed over the past year.

Table 10 Non-interest expense

(C$ millions, except percentage amounts)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Human resources					
Salaries	**$ 3,302**	$ 3,247	$ 3,189	**$ 55**	**2%**
Variable compensation	**2,273**	2,084	2,095	**189**	**9**
Acquisition-related retention compensation	**36**	84	158	**(48)**	**(57)**
Benefits	**1,120**	925	783	**195**	**21**
Stock compensation (1)	**85**	57	38	**28**	**49**
	6,816	6,397	6,263	**419**	**7**
Occupancy					
Net premises rent	**381**	362	387	**19**	**5**
Premises repairs and maintenance (2)	**218**	192	177	**26**	**14**
Depreciation	**93**	95	103	**(2)**	**(2)**
Property taxes	**84**	82	84	**2**	**2**
	776	731	751	**45**	**6**
Equipment					
Office and computer rental and maintenance	**584**	548	540	**36**	**7**
Depreciation	**291**	285	285	**6**	**2**
	875	833	825	**42**	**5**
Communications					
Telecommunication	**241**	290	317	**(49)**	**(17)**
Marketing and public relations	**238**	212	211	**26**	**12**
Postage and courier	**105**	113	121	**(8)**	**(7)**
Stationery and printing	**105**	104	108	**1**	**1**
	689	719	757	**(30)**	**(4)**
Professional fees	**493**	460	416	**33**	**7**
Outsourced item processing	**294**	292	306	**2**	**1**
Amortization of other intangibles	**69**	71	72	**(2)**	**(3)**
Other					
Business and capital taxes	**155**	144	129	**11**	**8**
Travel and relocation	**144**	140	144	**4**	**3**
Employee training	**39**	39	46	**—**	**—**
Donations	**42**	38	41	**4**	**11**
Other	**628**	372	494	**256**	**69**
	1,008	733	854	**275**	**38**
Total	**$11,020**	$10,236	$10,244	**$ 784**	**8%**

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

(2) Premises repairs and maintenance includes energy costs.

Occupancy costs were up $45 million or 6%, largely due to higher premises repairs and maintenance costs, partially reflecting the reversal in the fourth quarter of 2003 of a reserve previously established for vacant space that was subsequently subleased. Equipment costs were up $42 million or 5% due to higher office and computer rental and maintenance expenses largely as a result of the UnumProvident acquisition and the relocation of RBC Capital Markets' London office.

Other non-interest expenses were up by $275 million or 38%, mainly due to the Rabobank settlement costs and recognition of a $33 million valuation allowance in the U.S. relating to certain mortgage loans that are believed to have been fraudulently originated in 2001 and 2002.

Focus on cost control

Our expense growth of 8% in 2004 missed our objective of growing expenses at a lower rate than revenues (which were up only 2%). In light of this disappointing performance, we took strong action in the fourth quarter to become more efficient and cost-effective. As part of the Client First Initiative, we are streamlining our organizational structure, resources and processes for faster decision-making, quicker implementation and better productivity. We are realigning to focus more effectively on our distinct client groups in Canada, the U.S. and internationally, and are integrating all our systems and operating capabilities in a global technology and operations group. We believe the Client First Initiative will allow us to control our costs more aggressively and, consequently, we have set a new expense growth objective for 2005 of less than 3%, compared to a revenue growth objective of 6–8%.

The business realignment charges of the fourth quarter are discussed on page 25 in the Financial overview section.

Table 11 Taxes

(C$ millions, except percentage amounts)	2004	2003	2002
Income taxes	**$1,194**	$1,443	$1,415
Other taxes			
Goods and services and sales taxes	**225**	220	224
Payroll taxes	**207**	212	204
Capital taxes	**140**	124	107
Property taxes (1)	**84**	82	84
Business taxes	**15**	20	22
Insurance premium taxes	**33**	26	22
	704	684	663
Total	**$1,898**	$2,127	$2,078
Effective income tax rate (2)	**28.8%**	31.4%	32.0%
Effective total tax rate (3)	**39.1%**	40.3%	40.9%

(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 taxes on income assessed by the governments of foreign jurisdictions where we operate. Taxes are also assessed on expenditures and supplies consumed in support of our operations.

Income and other taxes shown in Table 11 above were $1,898 million in 2004, comprising income taxes of $1,194 million and other taxes of $704 million. Income taxes decreased by $249 million from 2003, largely due to lower net income before tax. Other taxes increased by $20 million, largely due to an increase in capital taxes.

As shown above, the effective income tax rate decreased from 31.4% in 2003 to 28.8% in 2004, reflecting a reduction in the federal tax rate in Canada. In addition to the income and other taxes reported in the Consolidated statement of income, we recorded income taxes of $597 million in 2004 ($895 million in 2003) in shareholders' equity, a reduction of $298 million, reflecting a decrease in unrealized foreign currency translation gains and an increase in additional pension obligations as shown in Note 16 on page 98.

FINANCIAL PRIORITY: STRONG CREDIT QUALITY

Highlights

- Portfolio continues to be well diversified
- $175 million drawdown of the general allowance, reflecting continued improvement in credit quality
- Nonaccrual loans down 28% from 2003 to $1,259 million
- Provision for credit losses down 51% to $347 million
- Allocated specific provision ratio of .22%, down from .33% in 2003
- Net charge-offs ratio of .41%, down from .46% in 2003

Loan portfolio

During 2004, our loan portfolio continued to perform well, reflecting strong economic conditions in Canada and the U.S. and a continuation of the low interest rate environment, which contributed to strong household and business credit quality.

As shown in the charts below, our loan portfolio remains well balanced among residential mortgage, personal, credit card, and business and government loans and acceptances. Compared to October 31, 2003, loans and acceptances were up $16.8 billion, reflecting good loan demand in a lower interest rate environment. Business and government loans and acceptances were up $5.2 billion, residential mortgages were up $5.4 billion, personal loans were up $4.7 billion and credit card balances were up $1.6 billion. The domestic portfolios experienced strong growth and accounted for a significant portion of the overall increase experienced during the year.

The portion of our business and government credit exposure rated investment grade was 69% in 2004, unchanged from 2003. Business and government loans and acceptances include our small business portfolio of $10.1 billion, which is generally rated lower than our loans to larger businesses.

Table 12 on page 50 provides a detailed breakdown of loans and acceptances, which we believe continue to be well diversified across sectors and geographies.

In 2004, we increased our exposure to key areas that we have targeted for growth including financial services. The increase in financial services was largely due to an increase in securities lending activity. During 2004, we continued to reduce our exposure to certain risk sensitive areas such as telecommunication, cable, electricity generation and distribution (within the energy sector) and airlines and aerospace (within the transportation and environment sector). Our aggregate exposure to these areas has declined by $1.3 billion since 2003 to $1.9 billion or .96% of loans and acceptances.

Nonaccrual loans

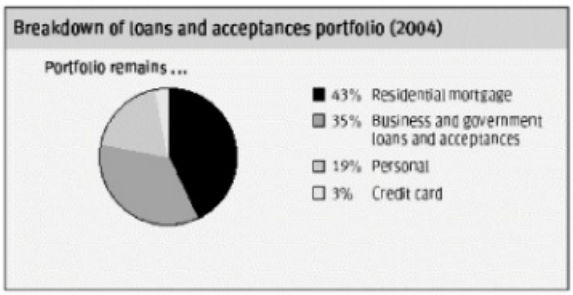
Loans are generally classified as nonaccrual (meaning interest is no longer being accrued) when there is no longer reasonable assurance of timely collection of the full amount of principal or interest, as more fully described in Note 1 on page 79.

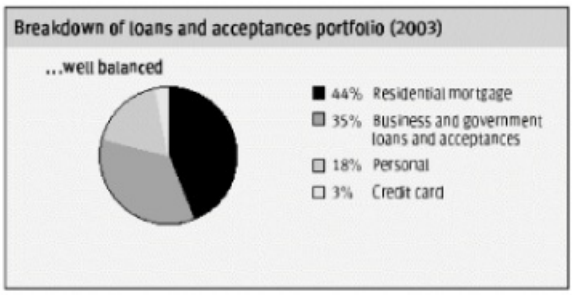
As indicated in Table 13 on page 51, nonaccrual loans decreased by $486 million or 28% during the year to $1,259 million. This was largely due to successful collection efforts, resulting in a number of problem accounts being repaid, restructured or sold and a general improvement in the credit environment, resulting in fewer new problem loans.

Business and government nonaccrual loans fell by $455 million to $924 million, primarily resulting from reductions of $232 million in Canada and $223 million in Other International. The majority of the decline in Canada occurred in the transportation and environment, agriculture, and small business sectors, while the majority of the decline in Other International was in the energy, mining and metals, financial services and media and cable sectors. Small business nonaccrual loans in Canada continue to decline as a result of enhanced underwriting, monitoring and collection processes.

In the consumer portfolio, nonaccrual loans declined by $31 million to $335 million, with a $49 million decline in Canada partially offset by an increase of $15 million in the United States. New additions to non-accrual loans declined during the year, largely due to healthy household credit quality and the realization of benefits from our prior implementation of advanced risk modeling technology designed to optimize reward for risk assumed.

Nonaccrual loans as a percentage of related loans and acceptances (before deducting the allowance for loan losses) decreased to .64% from .98% in 2003, reflecting improvements in both the Canadian and Other international ratios and a slight deterioration in the U.S., as shown in Table 20 on page 56.


Breakdown of loans and acceptances portfolio (2004)
Portfolio remains ...
43% Residential mortgage
35% Business and government loans and acceptances
19% Personal
3% Credit card


Breakdown of loans and acceptances portfolio (2003)
...well balanced
44% Residential mortgage
35% Business and government loans and acceptances
18% Personal
3% Credit card

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 $347 million in 2004, down $368 million from 2003, as shown in Table 14 on page 52. This reflected a $193 million decline in the allocated specific provision and a $175 million reduction in the general allowance.

The allocated specific provision on business and government loans decreased by $172 million or 58% to $126 million in 2004, reflecting declines of $104 million in Canada (largely in the transportation and environment sector), and $96 million in Other International (mostly in the energy sector), partially offset by an increase of $28 million in the United States. The overall increase in the United States is a result of an increase in the energy sector of $47 million, partially offset by reductions in other sectors. In the consumer portfolio, the allocated specific provision for credit losses decreased by $21 million, largely related to personal loans in the United States.

In 2004, the allocated specific provisions for credit losses were $522 million or .22% of average loans, acceptances and reverse repurchase agreements (as shown in Table 20 on page 56) and .27% of average loans and acceptances. This compared to $715 million or .33% and .41%, respectively, a year ago. We believe that a ratio of specific provisions to average loans and acceptances is a more meaningful measure of loan quality than a ratio based on average loans, acceptances and reverse repurchase agreements. Based on the new ratio, we have revised our medium-term goal and objective for 2005, according to which we will measure our future performance.

Outlook

In 2005, we expect a ratio of allocated specific provisions for credit losses to average loans and acceptances in the range of .35–.45% compared to our 2004 performance of .27%. This reflects management's view that credit losses in our large business and government portfolios will likely revert to more normalized levels.

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 analysis, 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 the Critical accounting policies and estimates section on page 26, the allowance for credit losses comprises three components – allocated specific, allocated general and unallocated.

As shown in Table 18 on page 54, the allowance for credit losses decreased by $450 million or 21% from 2003 to a cyclical low of $1,714 million. This change was largely due to a $175 million drawdown of the general allowance, and decreases in the allocated specific allowance, which were in line with the reduction in nonaccrual loans over the same period. The drawdown of the general allowance followed an assessment of the credit quality of our loan portfolios and the adequacy of the related general allowance levels. The drawdown reflects positive changes in portfolio composition, improving default trends and better economic conditions. During the year, charge-offs, net of recoveries, declined to $786 million or .41% of average loans and acceptances, from $806 million or ..46% a year ago.

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 59.

As shown in Table 15 on page 53, the largest Canadian exposure is in Ontario, which has 38% of total loans and acceptances. Internationally, the largest concentration is in the U.S., where we have 13% of our total loans and acceptances.

As shown in Table 12 on page 50, the largest sector concentrations, excluding small business, are in financial services, commercial real estate and agriculture, with 8%, 4% and 2% of loans and acceptances, respectively.

Table 19 on page 55 shows contractual amounts with clients outside of Canada. Of the total international contractual amounts, $63 billion or 14% of total assets are in the United States and $51 billion or 11% of total assets are outside Canada and the U.S.

Table 12 Loans and acceptances by industry sector

(C$ millions, except percentage amounts)						Percentage of total	
	2004	2003	2002	2001	2000	2004	2000
Canada							
Consumer							
Residential mortgage	$ **80,168**	$ 73,978	$ 67,700	$ 64,066	$ 61,444	**41.0%**	36.6%
Personal	**30,415**	26,445	24,550	26,086	26,275	**15.6**	15.7
Credit card	**6,298**	4,663	4,740	4,110	4,666	**3.2**	2.8
	116,881	105,086	96,990	94,262	92,385	**59.8**	55.1
Business and government loans and acceptances							
Small business (1)	**10,137**	9,705	9,470	9,788	11,701	**5.2**	7.0
Agriculture	**4,400**	4,526	4,427	4,758	4,931	**2.3**	2.9
Commercial mortgages	**2,761**	2,616	2,485	2,635	2,961	**1.4**	1.8
Consumer goods	**2,215**	2,394	2,280	2,447	2,874	**1.1**	1.7
Commercial real estate	**2,418**	2,086	2,327	2,325	2,594	**1.2**	1.5
Energy	**2,160**	1,702	2,919	4,293	3,754	**1.1**	2.2
Government	**1,921**	1,805	1,006	1,597	1,385	**1.0**	.8
Automotive (2)	**1,724**	1,630	1,376	864	673	**.9**	.4
Industrial products	**1,521**	1,503	1,642	2,174	2,470	**.8**	1.5
Transportation and environment (2)	**1,034**	1,111	1,524	2,138	1,519	**.5**	.9
Forest products	**779**	1,052	975	1,275	1,362	**.4**	.8
Financial services	**2,027**	947	2,245	3,010	2,218	**1.0**	1.3
Media and cable (3)	**772**	839	996	1,510	1,120	**.4**	.7
Mining and metals	**250**	369	369	636	897	**.1**	.5
Telecommunication	**135**	169	488	677	1,008	**.1**	.6
Information technology	**274**	126	197	203	210	**.1**	.1
Other	**5,478**	4,083	6,913	8,155	7,338	**2.9**	4.4
	40,006	36,663	41,639	48,485	49,015	**20.5**	29.2
Total Canada	**156,887**	141,749	138,629	142,747	141,400	**80.3**	84.3
United States							
Consumer							
Residential mortgage	**3,227**	4,096	4,353	2,666	845	**1.7**	.5
Personal	**5,849**	5,015	5,269	4,621	78	**3.0**	—
Cards	**108**	107	125	128	—	**—**	—
	9,184	9,218	9,747	7,415	923	**4.7**	.5
Business and government loans and acceptances							
Consumer goods	**723**	824	958	1,172	435	**.4**	.3
Commercial real estate	**5,267**	5,480	4,531	3,773	44	**2.7**	—
Energy	**843**	1,200	2,680	1,613	1,582	**.4**	.9
Government	**221**	100	19	23	—	**.1**	—
Automotive (2)	**255**	329	409	408	221	**.1**	.1
Industrial products	**360**	466	974	1,513	1,107	**.2**	.7
Transportation and environment (2)	**213**	350	484	788	469	**.1**	.3
Forest products	**89**	127	223	98	181	**—**	.1
Financial services	**5,003**	3,330	3,200	2,754	4,521	**2.6**	2.7
Media and cable (3)	**564**	854	1,107	1,038	1,782	**.3**	1.1
Mining and metals	**26**	97	70	45	104	**—**	.1
Telecommunication	**54**	315	689	835	1,131	**—**	.7
Information technology	**128**	86	177	299	374	**.1**	.2
Other	**2,824**	2,782	3,354	2,819	541	**1.5**	.3
	16,570	16,340	18,875	17,178	12,492	**8.5**	7.5
Total United States	**25,754**	25,558	28,622	24,593	13,415	**13.2**	8.0
Other International							
Consumer							
Residential mortgage	**777**	745	789	712	695	**.4**	.4
Personal	**584**	726	769	688	734	**.3**	.4
Cards	**50**	46	49	45	—	**—**	—
	1,411	1,517	1,607	1,445	1,429	**.7**	.8
Business and government loans and acceptances							
Consumer goods	**119**	185	425	527	676	**.1**	.4
Commercial real estate	**153**	504	593	309	227	**.1**	.1

Energy	**340**	672	1,051	1,381	1,469	**.2**	.9
Government	**21**	30	111	105	167	**—**	.1
Automotive (2)	**9**	6	2	119	292	**—**	.2
Industrial products	**7**	91	225	603	642	**—**	.4
Transportation and environment (2)	**1,000**	1,326	1,958	783	1,018	**.5**	.6
Forest products	**37**	77	194	287	287	**—**	.2
Financial services	**7,983**	4,914	2,414	3,893	3,391	**4.1**	2.0
Media and cable (3)	**20**	95	213	342	251	—	.1
Mining and metals	**333**	525	1,122	1,026	797	**.2**	.5
Telecommunication	**13**	56	557	723	1,113	**—**	.7
Information technology	**—**	—	2	97	59	**—**	—
Other	**1,251**	1,185	595	589	1,179	**.6**	.7
	11,286	9,666	9,462	10,784	11,568	**5.8**	6.9
Total Other International	**12,697**	11,183	11,069	12,229	12,997	**6.5**	7.7
Total loans and acceptances	**195,338**	178,490	178,320	179,569	167,812	**100.0%**	100.0%
Allowance for loan losses	**(1,644)**	(2,055)	(2,203)	(2,278)	(1,871)		
Total	$**193,694**	$176,435	$176,117	$177,291	$165,941		

(1) Comprises the following industries in 2004: commercial real estate of $1,821 million (2003 – $1,777 million; 2002 – $1,737 million), consumer goods of $1,764 million (2003 – $1,777 million; 2002 – $1,583 million), industrial products of $999 million (2003 – $952 million; 2002 – $887 million), transportation and environment of $502 million (2003 – $503 million; 2002 – $552 million), automotive of $463 million (2003 – $462 million; 2002 – $377 million), forest products of $276 million (2003 – $298 million; 2002 – $278 million), energy of $150 million (2003 – $137 million; 2002 – $125 million), information technology of $124 million (2003 – $113 million; 2002 – $93 million), mining and metals of $62 million (2003 – $65 million; 2002 – $69 million), financial services of $86 million (2003 – $136 million; 2002 – $132 million), media and cable of $85 million (2003 – $81 million; 2002 – $77 million), telecommunications of $23 million (2003 – $48 million; 2002 – $34 million), and other of $3,782 million (2003 – $3,356 million; 2002 – $3,526 million).

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

(3) Includes cable loans of $218 million in Canada in 2004 (2003 – $236 million; 2002 – $267 million; 2001 – $330 million; 2000 – $262 million), $191 million in the United States in 2004 (2003 – $357 million; 2002 – $522 million; 2001 – $455 million; 2000 – $1,162 million) and $20 million in Other International in 2004 (2003 – $75 million; 2002 – $112 million; 2001 – $170 million; 2000 – $159 million).

Table 13 Nonaccrual loans by industry sector

(C$ millions)	2004	2003	2002	2001	2000
Canada					
Consumer					
Residential mortgage	**$ 96**	$ 110	$ 102	$ 142	$ 185
Personal	**178**	213	275	310	247
	274	323	377	452	432
Business and government loans and acceptances					
Small business (1)	**142**	169	205	261	248
Agriculture (1)	**75**	127	141	111	53
Commercial mortgages	**17**	24	17	22	16
Consumer goods	**25**	32	47	11	37
Commercial real estate	**2**	8	23	95	90
Energy	**1**	1	1	27	—
Automotive	**—**	—	10	18	5
Industrial products	**34**	18	23	45	28
Transportation and environment	**9**	118	138	274	185
Forest products	**151**	169	199	195	184
Financial services	**—**	3	—	7	20
Media and cable	**3**	15	18	43	36
Mining and metals	**6**	—	—	1	—
Telecommunication	**10**	8	20	—	—
Information technology	**—**	17	6	11	8
Other	**34**	32	47	50	27
	509	741	895	1,171	937
Total Canada	**783**	1,064	1,272	1,623	1,369
United States					
Consumer					
Residential mortgage	**33**	7	16	24	—
Personal	**11**	22	31	15	—
	44	29	47	39	—
Business and government loans and acceptances					
Consumer goods	**11**	16	10	9	—
Commercial real estate	**65**	65	75	81	4
Energy	**141**	114	95	—	—
Automotive	**4**	7	29	33	—
Industrial products	**4**	5	30	8	68
Transportation and environment	**3**	9	36	48	56
Financial services	**—**	9	46	30	—
Media and cable	**64**	44	56	—	—
Telecommunication	**—**	—	77	272	—
Information technology	**9**	11	48	76	—
Other	**31**	52	35	30	17
	332	332	537	587	145
Total United States	**376**	361	584	626	145
Other International					
Consumer					
Residential mortgage	**17**	14	13	13	14
	17	14	13	13	14
Business and government loans and acceptances					
Consumer goods	**—**	—	—	10	2
Energy	**20**	125	147	3	14
Industrial products	**—**	2	—	2	15
Transportation and environment	**—**	9	32	43	—
Financial services	**14**	33	31	53	41
Media and cable	**—**	27	—	—	—
Mining and metals	**2**	57	128	40	11
Other	**47**	53	81	52	67
	83	306	419	203	150
Total Other International	**100**	320	432	216	164
Total (2), (3)	**$1,259**	$1,745	$2,288	$2,465	$1,678

(1) Includes government guaranteed portions of nonaccrual loans of $24 million in small business in 2004 (2003 — $39 million; 2002 — $64 million; 2001 — $95 million; 2000 — $101 million) and $9 million in agriculture (2003 — $9 million; 2002 — $10 million; 2001 — $6 million; 2000 — $6 million).

(2) Includes foreclosed assets of $27 million in 2004 (2003 — $34 million; 2002 — $32 million; 2001 — $37 million; 2000 — $16 million).

(3) Past due loans greater than 90 days not included in nonaccrual loans was $219 million in 2004 (2003 — $222 million; 2002 — $217 million; 2001 — $245 million).

Table 14 Provision for credit losses by industry sector

(C$ millions)	2004	2003	2002	2001	2000
Canada					
Consumer					
Residential mortgage	**$ 6**	$ 4	$ 3	$ 8	$ —
Personal	**212**	230	266	265	301
Credit card	**165**	152	135	125	102
	383	386	404	398	403
Business and government loans and acceptances					
Small business	**75**	77	110	164	105
Agriculture	**6**	(2)	22	20	4
Commercial mortgages	**—**	(3)	(5)	7	2
Consumer goods	**(16)**	2	19	2	7
Commercial real estate	**(10)**	(14)	(15)	15	(17)
Energy	**—**	—	4	17	(8)
Automotive	**—**	—	—	17	—
Industrial products	**4**	2	(7)	14	2
Transportation and environment	**(33)**	69	(19)	13	56
Forest products	**3**	13	4	7	(36)
Financial services	**—**	(4)	(27)	(9)	—
Media and cable	**(1)**	1	(7)	13	12
Mining and metals	**—**	1	(1)	—	(1)
Telecommunication	**5**	(1)	59	—	(1)
Information technology	**(1)**	2	3	3	8
Other	**(1)**	(8)	(15)	8	(10)
	31	135	125	291	123
Total Canada	**414**	521	529	689	526
United States					
Consumer					
Residential mortgage	**1**	3	7	8	—
Personal	**9**	24	15	5	—
Cards	**3**	3	4	2	—
	13	30	26	15	—
Business and government loans and acceptances					
Consumer goods	**1**	8	4	2	—
Commercial real estate	**3**	5	5	66	2
Energy	**63**	16	107	—	—
Automotive	**1**	(1)	1	6	—
Industrial products	**1**	(1)	8	3	40
Transportation and environment	**(1)**	7	5	(4)	42
Financial services	**—**	—	11	7	—
Media and cable	**8**	12	—	3	—
Telecommunication	**(13)**	—	202	272	—
Information technology	**(4)**	(4)	41	7	—
Other	**47**	36	30	—	15
	106	78	414	362	99
Total United States	**119**	108	440	377	99
Other International					
Consumer					
Residential mortgage	**—**	1	—	(8)	—
	—	1	—	(8)	—
Business and government loans and acceptances					
Consumer goods	**—**	—	(6)	(2)	(7)
Commercial real estate	**—**	—	(1)	(1)	(1)
Energy	**(13)**	62	34	(8)	(2)
Automotive	**—**	—	—	1	(8)
Industrial products	**—**	—	(3)	—	(6)
Transportation and environment	**(1)**	1	16	12	—
Financial services	**—**	3	10	(10)	(21)
Media and cable	**4**	14	—	—	—
Mining and metals	**(4)**	4	28	—	2
Other	**3**	1	18	(1)	(11)
	(11)	85	96	(9)	(54)

Total Other International	**(11)**	86	96	(17)	(54)
Allocated specific provision	**522**	715	1,065	1,049	571
Allocated general provision	**(147)**	6	(22)	205	73
Total allocated provision	**375**	721	1,043	1,254	644
Total unallocated provision	**(28)**	(6)	22	(135)	47
Total	**$ 347**	$715	$1,065	$1,119	$691

Table 15 Loans and acceptances by geographic location (1)

(C$ millions, except percentage amounts)	2004	2003	2002	2001	2000	Percentage of total 2004	Percentage of total 2000
Canada							
Atlantic provinces (2)	**$ 10,385**	$ 9,856	$ 9,741	$ 9,518	$ 9,690	**5.3%**	5.8%
Quebec	**16,976**	15,800	15,224	13,760	16,191	**8.7**	9.7
Ontario	**73,181**	65,632	63,376	72,018	60,999	**37.5**	36.3
Prairie provinces (3)	**29,899**	26,823	26,953	24,949	29,402	**15.3**	17.5
British Columbia	**26,446**	23,638	23,335	22,502	25,118	**13.5**	15.0
Total Canada	**156,887**	141,749	138,629	142,747	141,400	**80.3**	84.3
United States	**25,754**	25,558	28,622	24,593	13,415	**13.2**	8.0
Other International	**12,697**	11,183	11,069	12,229	12,997	**6.5**	7.7
Total loans and acceptances	**195,338**	178,490	178,320	179,569	167,812	**100.0%**	100.0%
Allowance for loan losses	**(1,644)**	(2,055)	(2,203)	(2,278)	(1,871)		
Total	**$193,694**	$176,435	$176,117	$177,291	$165,941		

(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.

Table 16 Nonaccrual loans by geographic location

(C$ millions, except percentage amounts)	2004	2003	2002	2001	2000	Percentage of total 2004	Percentage of total 2000
Canada							
Atlantic provinces (1)	**$ 60**	$ 81	$ 107	$ 124	$ 115	**4.8%**	6.9%
Quebec	**131**	155	90	282	198	**10.4**	11.8
Ontario	**254**	348	471	621	572	**20.2**	34.1
Prairie provinces (2)	**93**	140	177	143	129	**7.4**	7.7
British Columbia	**245**	340	427	453	355	**19.4**	21.2
Total Canada	**783**	1,064	1,272	1,623	1,369	**62.2**	81.6
United States	**376**	361	584	626	145	**29.9**	8.6
Other International	**100**	320	432	185	136	**7.9**	8.1
LDCs	**—**	—	—	31	28	**—**	1.7
Total	**$1,259**	$1,745	$2,288	$2,465	$1,678	**100.0%**	100.0%

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

(2) Comprises Manitoba, Saskatchewan and Alberta.

Table 17 Provision for credit losses by geographic location

(C$ millions, except percentage amounts)	2004	2003	2002	2001	2000	Percentage of total 2004	Percentage of total 2000
Canada							
Atlantic provinces (1)	**$ 34**	$ 46	$ 59	$ 63	$ 58	**9.8%**	8.4%
Quebec	**(1)**	77	(5)	43	22	**(.3)**	3.2
Ontario	**315**	303	330	398	342	**90.8**	49.5
Prairie provinces (2)	**35**	55	86	81	64	**10.1**	9.3
British Columbia	**31**	40	59	104	40	**8.9**	5.8
Total Canada	**414**	521	529	689	526	**119.3**	76.1
United States	**119**	108	440	377	99	**34.3**	14.3
Other International	**(11)**	86	96	(17)	(54)	**(3.2)**	(7.8)
Allocated specific provision	**522**	715	1,065	1,049	571	**150.4**	82.6
Allocated general provision	**(147)**	6	(22)	205	73	**(42.3)**	10.6
Total allocated provision	**375**	721	1,043	1,254	644	**108.1**	93.2
Total unallocated provision	**(28)**	(6)	22	(135)	47	**(8.1)**	6.8

Total	**$ 347**	$715	$1,065	$1,119	$691	**100.0%**	100.0%

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

(2) Comprises Manitoba, Saskatchewan and Alberta.

Table 18 Allowance for credit losses

(C$ millions)	2004	2003	2002	2001	2000
Allowance at beginning of year	**$2,164**	$2,314	$ 2,392	$ 1,975	$1,900
Provision for credit loses	**347**	715	1,065	1,119	691
Charge-offs					
Canada					
Residential mortgage	**(7)**	(6)	(11)	(15)	(11)
Personal	**(306)**	(345)	(381)	(394)	(372)
Credit card	**(204)**	(188)	(172)	(169)	(150)
Business and government	**(190)**	(218)	(330)	(296)	(225)
	(707)	(757)	(894)	(874)	(758)
United States					
Residential mortgage	**—**	(4)	(1)	(9)	—
Personal	**(19)**	(28)	(17)	(7)	—
Credit card	**(3)**	(4)	(6)	(2)	—
Business and government	**(129)**	(131)	(467)	(215)	(41)
	(151)	(167)	(491)	(233)	(41)
Other International					
Business and government	**(140)**	(52)	(39)	(18)	(40)
LDC exposures	**—**	—	(33)	—	—
	(140)	(52)	(72)	(18)	(40)
	(998)	(976)	(1,457)	(1,125)	(839)
Recoveries					
Canada					
Personal	**65**	66	68	66	44
Credit card	**38**	36	37	44	48
Business and government	**76**	53	72	58	48
	179	155	177	168	140
United States					
Personal	**3**	2	2	1	—
Credit card	**1**	1	1	—	—
Business and government	**24**	10	7	5	—
	28	13	10	6	—
Other International					
Business and government	**5**	2	11	11	22
	5	2	11	11	22
	212	170	198	185	162
Net charge-offs	**(786)**	(806)	(1,259)	(940)	(677)
Adjustments	**(11)**	(59)	116	238	61
Allowance at end of year	**$1,714**	$2,164	$ 2,314	$ 2,392	$1,975
Allocation of allowance (1)					
Canada					
Residential mortgage	**$ 23**	$ 33	$ 35	$ 45	$ 46
Personal	**384**	395	429	447	403
Credit card	**188**	147	147	147	88
Business and government	**502**	682	711	791	664
	1,097	1,257	1,322	1,430	1,201
United States					
Residential mortgage	**3**	3	6	4	3
Personal	**55**	42	36	33	—
Credit card	**3**	4	5	5	—
Business and government	**234**	319	409	434	184
	295	368	456	476	187
Other International					
Residential mortgage	**1**	1	—	—	8
Business and government	**44**	191	174	147	138
	45	192	174	147	146
Allocated allowance for loan losses	**1,437**	1,817	1,952	2,053	1,534
Unallocated allowance for loan losses	**207**	238	251	225	337
Total allowance for loan losses	**1,644**	2,055	2,203	2,278	1,871

Allowance for off-balance sheet and other items (2)	**70**	109	109	109	98
Allowance for tax-exempt securities	**—**	—	2	5	6
Total allowance for credit losses	**$1,714**	$2,164	$ 2,314	$ 2,392	$1,975

(1) The allowance for loan losses includes an amount for the allocated general allowance, which has been allocated to loan categories. These amounts total $950 million (2003 – $1,060 million; 2002 – $1,060 million; 2001 – $1,076 million; 2000 – $765 million) and have been allocated as follows: for Canada – residential mortgage $12 million (2003 – $21 million; 2002 – $20 million; 2001 – $21 million; 2000 – $18 million), personal $276 million (2003 – $266 million; 2002 – $266 million; 2001 – $266 million; 2000 – $207 million), credit card $188 million (2003 – $147 million; 2002 – $147 million; 2001 – $147 million; 2000 – $88 million), business and government $295 million (2003 – $385 million; 2002 – $386 million; 2001 – $385 million; 2000 – $321 million), and for United States – residential mortgage $2 million (2003 – $2 million; 2002 – $3 million; 2001 – $2 million; 2000 – $2 million), personal $53 million (2003 – $33 million; 2002 – $22 million; 2001 – $26 million; 2000 – nil), credit card $3 million (2003 – $4 million; 2002 – $5 million; 2001 – $5 million; 2000 – nil), and business and government $114 million (2003 – $187 million; 2002 – $196 million; 2001 – $192 million; 2000 – $110 million), and for Other International – business and government $7 million (2003 – $15 million; 2002 – $15 million; 2001 – $32 million; 2000 – $19 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 19 Foreign outstandings (1)

(C$ millions, except percentage amounts)	2004	% of total assets	2003	% of total assets	2002	% of total assets
United States – Banks	**$ 5,355**		$ 7,204		$ 5,838	
– Government	**6,917**		7,970		3,257	
– Other	**50,774**		57,086		62,210	
	63,046	**14.1%**	72,260	17.5%	71,305	18.7%
Western Europe – Banks	**25,673**		24,371		21,419	
– Government	**2,717**		2,792		1,286	
– Other	**12,969**		12,119		9,152	
	41,359	**9.2**	39,282	9.5	31,857	8.3
Central/Eastern Europe, Middle East and Africa	**138**	**–**	198	.1	247	.1
Latin America	**585**	**.1**	865	.2	1,607	.4
Caribbean	**2,912**	**.7**	2,692	.7	3,045	.8
Asia	**2,712**	**.6**	5,791	1.4	3,645	1.0
Australia and New Zealand	**2,897**	**.7**	2,425	.6	2,842	.7
Allowance for loan losses (2)	**(446)**	**(.1)**	(678)	(.2)	(760)	(.2)
Total	**$113,203**	**25.3%**	$122,835	29.8%	$113,788	29.8%

(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.

Table 20 Risk profile

(C$ millions, except percentage amounts)	2004	2003	2002	2001	2000
Percentage of loans and acceptances to total loans and acceptances					
Canada (1)					
Residential mortgage	**41%**	41%	38%	35%	37%
Personal	**15**	16	14	15	16
Credit card	**3**	3	3	2	3
Business and government	**20**	18	21	24	28
	79	78	76	76	84
United States	**14**	15	17	16	8
Other International	**7**	7	7	8	8
Total	**100%**	100%	100%	100%	100%
Nonaccrual loans					
Beginning of year	**$1,745**	$2,288	$ 2,465	$ 1,678	$1,704
Net additions	**512**	433	1,280	1,912	813
Charge-offs and adjustments	**(998)**	(976)	(1,457)	(1,125)	(839)
End of year	**$1,259**	$1,745	$ 2,288	$ 2,465	$1,678
As a % of related loans and acceptances					
Canada (1)					
Residential mortgage	**.12%**	.15%	.15%	.22%	.30%
Personal	**.59**	.81	1.12	1.19	.94
Business and government	**1.33**	2.14	2.28	2.68	1.93
	.50	.76	.93	1.18	.97
United States	**1.40**	1.34	1.92	2.25	1.06
Other International	**.75**	2.71	3.68	1.56	1.24
Total	**.64%**	.98%	1.28%	1.37%	1.00%
Allowance for credit losses					
Allocated specific	**$ 487**	$ 757	$ 894	$ 951	$ 747
Allocated country risk	**–**	–	–	31	28
Allocated general (2)	**1,020**	1,169	1,169	1,185	863
Total allocated	**1,507**	1,926	2,063	2,167	1,638
Unallocated	**207**	238	251	225	337
Total	**$1,714**	$2,164	$ 2,314	$ 2,392	$1,975
As a % of loans and acceptances	**.8%**	1.2%	1.2%	1.3%	1.1%
As a % of loans, acceptances and reverse repurchase agreements	**.7%**	1.0%	1.0%	1.0%	1.0%
As a % of nonaccrual loans (coverage ratio), excluding LDCs	**131%**	118%	96%	93%	112%
Provision for credit losses					
Allocated specific	**$ 522**	$ 715	$ 1,065	$ 1,049	$ 571
Allocated general	**(147)**	6	(22)	205	73
Total allocated	**375**	721	1,043	1,254	644
Unallocated	**(28)**	(6)	22	(135)	47
Total	**$ 347**	$ 715	$ 1,065	$ 1,119	$ 691
Credit derivative gains	**–**	(14)	(115)	–	–
Credit derivative losses	**–**	–	69	–	–
Total provision net of credit derivative gains/losses	**$ 347**	$ 701	$ 1,019	$ 1,119	$ 691
Allocated specific provision as a % of average loans, acceptances and reverse repurchase agreements	**.22%**	.33%	.50%	.52%	.31%
Provision as a % of average loans, acceptances and reverse repurchase agreements	**.15**	.33	.50	.55	.38
Allocated specific provision net of credit derivative gains/losses as a % of average loans, acceptances and reverse repurchase agreements	**.22**	.32	.48	.52	.31
Allocated specific provision as a % of related average loans and acceptances					
Canada (1)					
Residential mortgage	**.01%**	.01%	–	.01%	–
Personal	**.68**	.90	1.05	.94	1.12
Credit card	**2.63**	2.92	3.10	2.73	2.87
Business and government	**.08**	.39	.33	.67	.28
	.27	.38	.40	.50	.39
United States (3)	**.42**	.38	1.45	–	–
Other International	**(.09)**	.71	.83	1.08	.18
Total allocated specific provision	**.27%**	.41%	.61%	.61%	.36%
Total provision for credit losses	**.18**	.41	.61	.65	.43

Net charge-offs (excluding LDCs) as a % of average loans and acceptances	**.41%**	.45%	.69%	.55%	.42%
Net charge-offs as a % of average loans and acceptances	**.41%**	.46%	.72%	.55%	.42%

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

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

(3) As the information is not reasonably determinable, percentages for years prior to 2002 are not presented.

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:

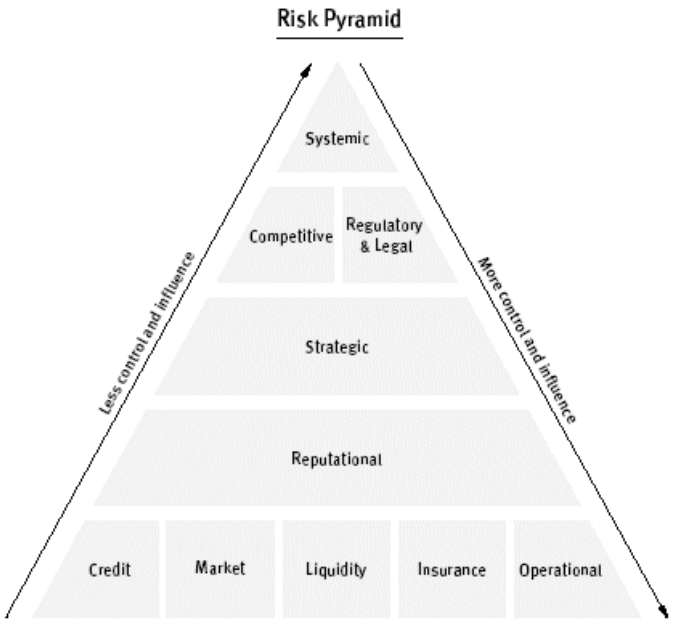
- Ensure alignment between risk appetite and business strategies
- Attract, develop and retain high-calibre risk management professionals
- Enhance communication of risk and risk appetite throughout the enterprise
- Invest in capabilities to better measure, understand and manage risk
- Strengthen the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

Our business activities expose us to the risks outlined in the risk pyramid. 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** is the risk inherent in the design and underwriting of insurance policies. The principal sources of Insurance risk are product design and pricing risk and insurance underwriting 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 legal or regulatory proceedings.

Risk Pyramid



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.

The Risk Pyramid: An organizational perspective



Risk management professionals work in partnership with the business segment and corporate functions 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 of Directors (the 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 comprises the Board of Directors, the Conduct Review and Risk Policy Committee (CR&RPC) and Group Risk Committee (GRC). CR&RPC is a board committee while GRC is a senior executive 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 oversee such matters as policies, portfolios, governance, ethics, compliance and various specific risk areas (i.e., credit, market, liquidity, insurance and operational). In 2004, the Structured Transactions Oversight Committee was established to provide risk oversight through the review of structured transactions and complex credits with potentially significant reputational, legal, regulatory, accounting or tax risks.

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 that ensures all risks are mitigated or that control gaps are addressed in a timely manner
- Maintain a comprehensive enterprise-wide risk policy framework to ensure effective creation, approval and communication of policies and related documents
- 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

Business segments

The base level of the organizational perspective risk pyramid comprises the business segments. Their responsibilities include:

- Ownership and accountability of the risks of the business
- Alignment of business strategy with the corporate risk culture, risk appetite and policy
- Identification, understanding, mitigation and management of the risks being taken

BASEL II

Basel II is a new capital adequacy framework that is intended to strengthen risk management and market discipline, and thereby the safety and soundness of the international financial industry. The Basel Committee on Banking Supervision, consisting of central banks and bank supervisors from 13 countries, approved the final text of the new framework in June 2004, after a five-year consultation period. This new accord will replace the current 1988 Basel Accord.

The next step for the countries involved with Basel II is implementation. The new framework, which is comprehensive and far-reaching, provides a menu of approaches to calculate regulatory capital. The implementation timetable mandates compliance with the new rules by the end of 2006 for the basic approach and the end of 2007 for the advanced approaches.

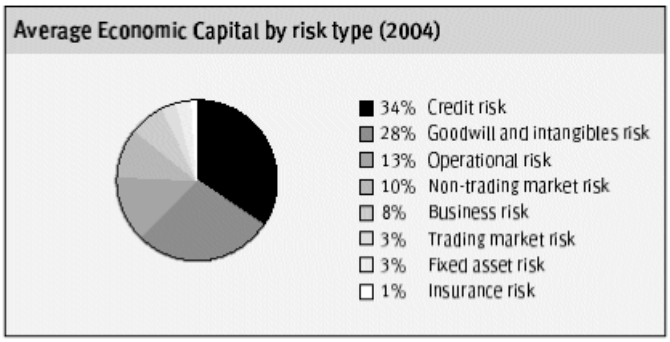
We have created a Basel Program Management Office, which is responsible for co-ordinating the implementation initiative and ensuring enterprise-wide compliance with Basel II. While this is not a transformational initiative, there will be opportunities to achieve internal efficiencies through the modernization and upgrading of risk practices, policies, processes and technologies, which will enable us to manage credit, market and operational risk more efficiently and effectively.

ECONOMIC CAPITAL

Economic Capital (EC) is management's estimate of the amount of common equity required to underpin all our 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 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 capital management. EC analysis is intended to represent the shareholder's perspective and drives the optimization of shareholder returns in terms of risk/reward. Calculation and attribution 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, improvements are made to these methodologies with the changes applied prospectively.

EC is calculated for various risk types. Credit, market (trading and non-trading), 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. For further details on goodwill and other intangibles, see Note 4 on page 86. EC for liquidity risk is not calculated separately but is embedded within the other risk types. The total required EC 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 return on equity calculations.

The following chart represents the proportionate EC levels by risk type in fiscal 2004. Compared to 2003, there has been no significant change by risk type. Credit risk and goodwill and intangibles risk continue to be our largest risks. The goodwill risk is largely attributable to acquisitions we have made in the U.S. over the past several years.



The following sections describe 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. Vigorous testing methods are in place to monitor the performance of the credit models. During 2004, 35% of our credit scoring models were enhanced to improve their ability to identify risk.

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 to ensure they accurately represent the risk profile of the counterparty they are attributed to and to ensure consistency in ratings across sector groups.

In addition to control processes for credit granting and ongoing monitoring, we have established risk limits to ensure that we do not become overexposed 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 senior management is aware of shifts in loan quality and portfolio performance. Critical components of this reporting framework include a dashboard for consumer and small business lending, and classification reporting and expected loss monitoring for commercial and corporate lending.

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 4% of consumer and small business loans outstanding at October 31, 2004, were rated 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 that is 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 $2.1 billion from a year ago to $1.8 billion at October 31, 2004, and are at an all time low since this risk measurement process was introduced in 2002.

In addition, current one-year expected losses on our commercial and corporate loan portfolio provide a good indicator of credit quality trends. Expected loss is compared to long-term or through-the-cycle expected losses to assess where we are in the credit cycle. This analysis is performed at the single name and industry sector levels. The portfolio is further analyzed through stress testing and sensitivity analysis.

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 loss 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 2004, an additional limit on single-name exposure based on EC was put in place. This EC limit takes into account such factors as size, term, rating, sector, geography, collateral and seniority. In certain cases, loans are syndicated in order to reduce overall exposure to a single name. In the event of a limit exception, single names with approved limit exceptions are reported to senior management and to the CR&RPC in summary form on a quarterly basis. For certain exceptions, business units must provide a detailed action plan, including the expected timeframe for bringing the exposure back within the limit.

Each country and sector is assigned a risk rating and an exposure limit. The 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, 2004, credit mitigation was in place to cover $1.0 billion in corporate credit exposure.

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 $.6 billion in 2004.

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.

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 or expected differences between their buying and selling prices or to lock in arbitrage profits.

Components of market 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 principal in conjunction with our investment banking activities and also from our trading activities, which include the offering of tailored equity derivative products to clients, arbitrage trading and proprietary trading.

Foreign exchange rate and commodity price risk is the potential adverse impact on our earnings and economic value due to currency rate and commodity price movements and volatilities. In our proprietary positions, we are exposed to both the spot and forward foreign exchange markets, the derivatives markets and commodities markets.

Table 21 Market risk measures – Trading activities (1)

	2004				2003				2002			
(C$ millions)	**Year-end**	**High**	**Average**	**Low**	**Year-end**	**High**	**Average**	**Low**	**Year-end**	**High**	**Average**	**Low**
Global VAR by major risk category												
Equity	**$ 4**	**$20**	**$ 8**	**$4**	$ 4	$12	$ 7	$4	$ 7	$12	$ 8	$6
Foreign exchange and commodity	**2**	**5**	**2**	**1**	2	7	3	1	2	9	3	1
Interest rate (2)	**8**	**14**	**9**	**6**	8	13	9	6	11	14	6	2
Debt specific (3)	**2**	**2**	**1**	**1**	–	–	–	–	–	–	–	–
Global VAR (4)	**$ 10**	**$25**	**$ 13**	**$8**	$ 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) Also includes credit spread risk.

(3) Prior to 2004, interest rate and debt specific risk were reported in aggregate as interest rate risk.

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

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.

Debt specific risk is the potential adverse impact on our earnings and economic value due to changes in the creditworthiness and credit ratings of issuers of bonds and money market instruments, or the names underlying credit derivatives.

Credit spread risk is the potential adverse impact on our earnings and economic value due to changes in the credit spreads associated with issuers of bonds and money market instruments, or the names underlying credit derivatives.

We are exposed to debt specific and credit spread risk through our positions in bonds, money market instruments and credit derivatives.

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 operations areas. We employ an extensive set of principles, rules, controls and limits, which we believe conform to industry best practice. Our market risk management frame-work is designed to ensure that our risks are appropriately diversified on a global basis. The Market Risk group is a corporate function within Group Risk Management that is independent of the trading operations and is responsible for the daily monitoring of global trading risk exposures via risk measures such as Value-At-Risk (VAR), sensitivity analysis and stress testing. The Market Risk group uses these risk measures to assess global risk-return trends and to alert senior management in RBC Capital Markets and Group Risk Management and the CR&RPC of adverse trends or positions.

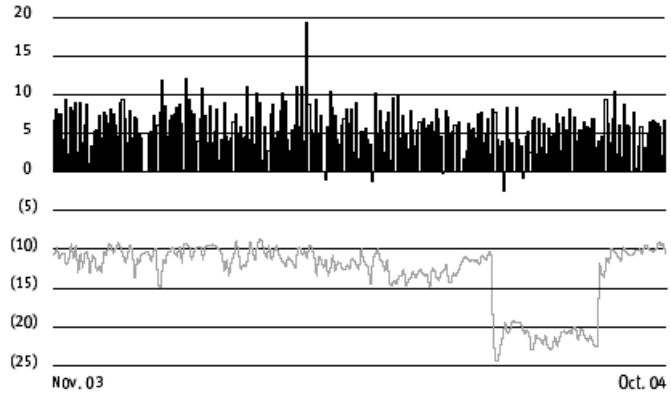
VAR, in simple terms, is a statistical technique that measures the range of market losses over a specified holding period expressed in terms of a specific confidence interval. VAR is the worst-case loss expected over the period within the probability set out by the confidence interval. Larger losses are possible, but with low probability. For example, our VAR model is based on a 99% confidence interval. Therefore, a portfolio with a VAR of $15 million held over one day would have a 1 in 100 chance of suffering a loss greater than $15 million in that day.

To ensure VAR effectively captures our market risk, we continuously monitor and enhance our methodology. The method used to attribute the components of global VAR to the various risk categories was enhanced in 2004. Any secondary interest rate risk related to foreign exchange of equity products is now isolated and included in the interest rate category. This change did not affect overall global VAR.

Daily back-testing against hypothetical profit and loss is used to monitor the statistical validity of VAR models. In fiscal 2004, there were no instances of the hypothetical net loss exceeding the VAR.

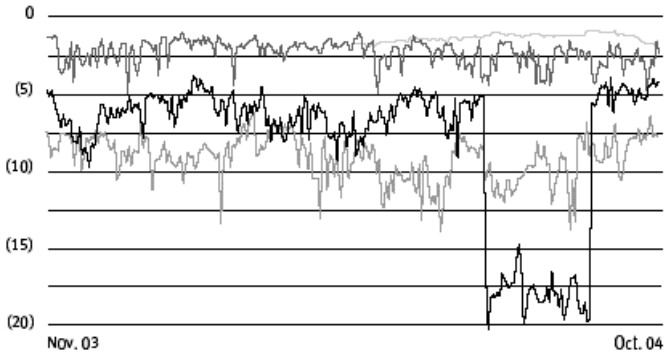
The year-end, high, average and low VAR by major risk category for our combined trading activities for the years ended October 31, 2004 and 2003, are shown in Table 21 above. The table also shows our global VAR, which incorporates the effects of correlation in the movements of interest rates, exchange rates, equity prices and commodity prices and the resulting benefits of diversification within our trading portfolio.

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)

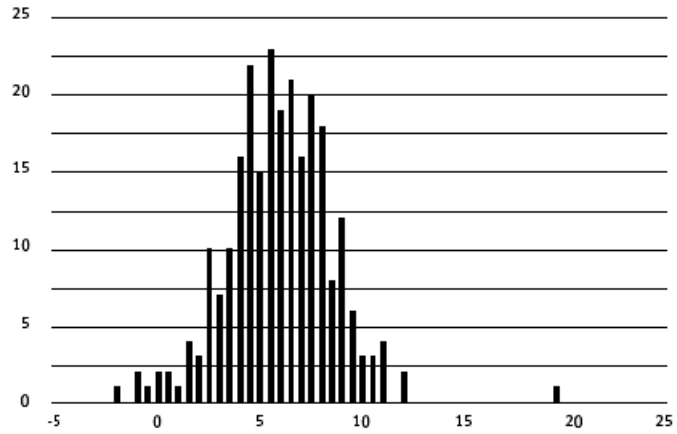


— Daily equity VAR — Daily foreign exchange VAR — Daily interest rate VAR

— Daily interest rate specific VAR

HISTOGRAM OF DAILY NET TRADING REVENUE

(number of days)



Daily net trading revenue (C$ millions)

As the table illustrates, the average global VAR in 2004 was $13 million, unchanged from 2003. The largest contributor to VAR is interest rate risk. The increase in equity VAR observed during the latter part of the third quarter and the beginning of the fourth quarter was due to higher equity trading inventory arising from equity underwriting activity. This increase in VAR was anticipated and pre-approved. By year-end, it returned to its typical historical range.

The first graph on page 60 compares the global trading VAR amounts to the relevant daily net trading revenue for the year ended October 31, 2004. During fiscal 2004, we experienced five 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.

In addition to VAR, extensive sensitivity analysis and stress testing are performed, monitored and reported on a daily basis as a supplementary control to 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 is 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 our exposure to potential political, economic or other disruptive events.

LIQUIDITY RISK

The objective of the liquidity management function 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 in place a comprehensive liquidity management framework comprising policies, procedures, methodologies and measurements. During the year, we operated under normal conditions and within approved net cash flow limits.

A detailed discussion of liquidity management is provided in the Liquidity management section on page 66.

INSURANCE RISK

Insurance risk is the risk inherent in the design and underwriting of insurance policies. The principal sources of insurance risk are product design and pricing risk and insurance underwriting risk.

Product design and pricing risk relates mainly to the possibility of differences between the assumptions made in pricing the insurance contract and actual subsequent company experience. This type of risk is especially evident in long-term insurance contracts under which our ability to adjust premiums or charges is limited. This risk is managed through detailed experience studies to support pricing assumptions, as well as scenario testing by our actuaries. In addition, a portion of policy benefits are held on-balance sheet allowing for misestimation and deterioration of assumptions. And, finally, reinsurance can be used to mitigate certain estimates in the pricing of a product.

Insurance underwriting risk relates to the mis-selection of the risks to be insured or an incorrect assessment of the frequency and/or amount of the future claims associated with those risks. To mitigate this risk, policy retention limits are in place that vary by market and geography. In addition, reinsurance mitigates exposure to large claims.

A dashboard reporting mechanism is in place to monitor the various insurance businesses we conduct. The performance of each business is assessed against various risk measures and assigned one of the following ratings: concern, monitor or good. At year-end, there were no businesses rated concern. To monitor any shifts in trending, further assessment criteria are applied to each portfolio to generate one of the following quality trend indicators – declining, stable or improving.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, technology, and human performance or from external events. We experienced two notable operational losses during the year. The first item is related to a processing disruption, resulting from a programming update to one of our computer systems. The disruption impacted our ability to promptly reflect some transactions in client account balances and affected most of our business segments. We also experienced a loss on certain mortgage loans that are believed to have been fraudulently originated in 2001 and 2002.

To mitigate operational risks across the organization an Operational Risk Management Framework has been developed. This framework ensures that the appropriate infrastructure, controls, systems and people are in place throughout the organization. It encompasses a common language of risk to enable enterprise-wide programs, assessment techniques and management tools. Complementing these are strong principles of corporate governance, our corporate values and code of conduct, independent risk-based internal auditing and the existence of compliance functions at the corporate and business levels. Three key components of our operational risk framework are (i) Risk and Control Self-Assessment (RCSA), (ii) Loss Event Database (LED) and (iii) Key Risk Indicators (KRIs).

RCSA is a formal process to identify, document, assess and manage operational risks throughout the organization. To facilitate the RCSA, each business and functional area has been divided into its component activities to define the entities to be assessed. Each entity completes a self-assessment to determine key risks, mitigating controls, the potential impact of a problem, the probability of an incident occurring and the acceptable level of risk. Where residual exposure is judged unacceptable, the group identifies root causes and agrees on an action plan and timeline.

The LED is a centralized database designed to capture information pertaining to operational losses with a financial impact exceeding $10,000. Key information captured, such as the frequency, severity and nature of operational loss events, is used to better understand the root causes of operational failures, resulting in improved risk mitigation strategies. Data collected on operational events will also support the determination and

attribution of capital for operational risk as the implementation of Basel II moves forward.

KRIs are used to assist us in recognizing and addressing our operational risk exposures and potential losses. The use of KRIs is a long-standing practice in several of our businesses and functional areas. In many cases, these are formal programs, used extensively as both business and risk management tools.

While operational risk is not a new risk, increased focus and renewed rigour in its management are evident throughout the financial services industry, be it with respect to capital reform or changing expectations for managing and reporting this risk. The initiatives outlined are key to our strategies for effectively managing operational risk. We will continue to refine and enhance these, as well as pursue research and development to ensure that we are at the forefront of operational risk management best practices.

FINANCIAL PRIORITY: BALANCE SHEET AND CAPITAL MANAGEMENT

Highlights

- Consumer loans up 10%
- Deposits up 4%
- Internally generated capital of $1.5 billion
- Tier 1 and Total capital ratios 8.9% and 12.4%, respectively
- Common share repurchases of 14.6 million and issuances of 3.3 million, for a net reduction of 11.3 million

Total assets were $447.7 billion at October 31, 2004, up $35.1 billion or 9% from October 31, 2003.

Securities were down $.8 billion or 1% from a year ago.

Loans (before allowance for loan losses) were up $16.6 billion or 10%, reflecting strong loan demand in a low interest rate environment. Consumer loans (residential mortgage, personal and credit card loans) were up $11.7 billion or 10%, with residential mortgages up $5.4 billion or 7% (after $5.0 billion of securitizations during the year), personal loans up $4.7 billion or 14% and credit card balances up $1.6 billion or 34%. Business and government loans were up $4.9 billion or 9% (after $.5 billion of securitizations during the year), largely due to a growth in securities borrowing activity.

Other assets were up $16.3 billion to $87.8 billion. This was largely driven by an increase in receivables from brokers and dealers, which is due both to an increase in business activity and refinements we have made to the process utilized for the determination of trade date security information and an increase in non-cash collateral received in connection with securities lending activities.

Deposits were $271.6 billion, up $11.1 billion or 4% from October 31, 2003. Interest-bearing deposits were up $7.2 billion or 3% and non-interest-bearing deposits were up $3.9 billion or 14%. Personal deposits were up $6.3 billion, business and government deposits were up $1.6 billion and bank deposits were up $3.2 billion. Further details on deposits are provided in Note 11 on page 93.

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 $1.5 billion at October 31, 2004, and $1.8 billion at October 31, 2003. The estimated fair value of deposits owed to clients exceeded book value by $.9 billion at October 31, 2004, and $1.3 billion at October 31, 2003. The net amount of the fair value excess of loans due from clients and the fair value excess of deposits due to clients was $614 million at October 31, 2004, as shown in Note 24 on page 108.

Other liabilities increased $21.8 billion to $147.7 billion. The growth was largely due to an increase in payables to brokers and dealers, caused by an increase in business activity and by refinements we have made to the process utilized for the determination of trade date security information, and an increase in collateral received in connection with securities lending activities.

Subordinated debentures (subordinated indebtedness) increased by $1.9 billion to $8.5 billion due to issuances exceeding redemptions as described on page 63 in the Capital management section.

Non-controlling interest in subsidiaries consists primarily of our interest in 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 $18.4 billion at October 31, 2004, up $.3 billion from a year ago. The increase reflected a $.7 billion increase in retained earnings which more than offset a $.2 billion decline in accumulated other comprehensive income, and a $.4 billion deduction from shareholders' equity for treasury stock relating to shares acquired and held by certain employee compensation vehicles and other subsidiaries for reasons other than cancellation. The $.2 billion decline in accumulated other comprehensive income was primarily due to a $.7 billion increase in unrealized foreign currency translation losses net of hedging activities, offset by a reduction in an additional pension obligation of $.4 billion, net of related income taxes, primarily due to an increase in the fair value of plan assets.

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 $285 million to pension plans. Note 18 on page 100 describes the funding position for accounting purposes and the sensitivity of key assumptions.

As of November 30, 2004, we had 644,069,606 common shares outstanding. In addition, as of November 30, 2004, we had 12,000,000 First Preferred Shares Non-cumulative Series N, 6,000,000 First Preferred Shares Non-cumulative Series O, 4,000,000 First Preferred Shares US$ Non-cumulative Series P and 10,000,000 First Preferred Shares Non-cumulative Series S outstanding. Currently, subject to the approval of the Toronto Stock Exchange, we may convert the First Preferred Shares Series N, Series O and Series P into our common shares. As of August 24, 2006, subject to the approval of the Toronto Stock Exchange, we will be permitted to convert the First Preferred Shares Series S into our common shares. As of November 30, 2004, the aggregate number of common shares issuable on the conversion of the First Preferred Shares Series N, Series O and Series P by us was 9,757,728.

CAPITAL MANAGEMENT

We actively manage our capital to balance the desire to maintain strong capital ratios and high debt ratings with the need to provide strong returns to our shareholders. In striving to achieve this balance, we consider the requirements of regulators, rating agencies, depositors and shareholders, as well as our future business plans, peer comparisons and our relative position to board-approved medium-term capital ratio goals. Additional considerations include the costs and terms of current and potential capital issuances and projected capital requirements.

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 2004, we achieved strong internal capital generation,which enabled us to continue repurchasing shares and redeeming some of our outstanding capital instruments. Our debt ratings continue to favourably affect our ability to raise capital at competitive prices.

Capital management activity

In 2004, the number of outstanding common shares decreased by 11.3 million. We repurchased 14.6 million common shares for $892 million, of which 8.2 million shares were repurchased for $504 million under a normal course issuer bid that expired in June 2004; and 6.4 million common shares were repurchased for $388 million under a normal course issuer bid that commenced on June 24, 2004, for a one-year period and that allows for the repurchase of up to 25 million common shares, representing approximately 3.8% of outstanding common shares. We issued 3.3 million common shares for $119 million in connection with the exercise of employee stock options.

During the year, we issued $2.5 billion of subordinated debentures through the Canadian Medium Term Notes Program that qualify as Tier 2B capital for regulatory purposes as follows: $1 billion on November 3, 2003, $500 million on January 27, 2004, and $1 billion on April 13, 2004. In addition, we issued $600 million of subordinated debentures that qualify as Tier 2A capital on June 18, 2004. During the year, we redeemed a total of $1,025 million of subordinated debentures that qualify as Tier 2B capital as follows: $350 million on April 12, 2004, $350 million on June 11, 2004, $175 million on July 7, 2004, and $150 million on October 12, 2004.

Dividends

Our common share dividend policy reflects our earnings outlook, desired payout ratios and the need to maintain adequate levels of capital to fund business opportunities. The targeted common share dividend payout ratio was raised from 35–45% to 40–50% in the first quarter of this year. In 2004, the dividend payout ratio was 47%, up from 38% a year ago. Common share dividends paid during the year were $2.02, up 17% from a year ago.

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 22.

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 23 on page 64, 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 22 Capital ratios (1)

(C$ millions, except percentage amounts and assets-to-capital multiple)	2004	2003	2002
Tier 1 capital			
Common equity	**$ 17,349**	$ 17,543	$ 17,238
Non-cumulative preferred shares	**832**	832	1,545
Non-controlling interest in subsidiaries			
RBC Capital Trust	**1,400**	1,400	1,400
RBC Capital Trust II	**900**	900	**—**
Other	**27**	27	29
Goodwill	**(4,236)**	(4,443)	(4,832)
	16,272	16,259	15,380
Tier 2 capital			
Permanent subordinated debentures (3)	**954**	396	467
Other subordinated debentures (2), (3)	**7,131**	5,847	6,147
General allowance (4)	**1,227**	1,407	1,420
	9,312	7,650	8,034
Investment in insurance subsidiaries	**(2,532)**	(2,143)	(2,014)
Other substantial investments	**(302)**	(371)	(368)
First-loss facility	**(17)**	(21)	(20)
Total capital	**$ 22,733**	$ 21,374	$ 21,012
Risk-adjusted assets	**$183,409**	$166,911	$165,559
Capital ratios			
Common equity to risk-adjusted assets	**9.5%**	10.5%	10.4%

Tier 1 capital to risk-adjusted assets	**8.9%**	9.7%	9.3%
Total capital to risk-adjusted assets	**12.4%**	12.8%	12.7%
Assets-to-capital multiple (5)	**18.1**	18.2	17.3

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

(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) In 2004, we issued $3.1 billion (2003–nil; 2002–US$400 million) of subordinated debentures, which increased Total capital by the same amount. We redeemed $1,025 million (2003 – $100 million; 2002–$400 million) of subordinated debentures.

(4) The general allowance for credit losses may be included in Tier 2 capital up to a maximum of .875% (2003 – .875%; 2002 – .875%) of risk-adjusted assets.

(5) Total assets and specified off-balance sheet financial instruments, as prescribed by OSFI, divided by Total capital.

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, 2004, our Tier 1 and Total capital ratios were 8.9% and 12.4%, respectively, compared to 9.7% and 12.8% as at October 31, 2003. Throughout 2004, 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. 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. As at October 31, 2004, our assets-to-capital multiple was 18.1 times,which remains below the maximum permitted by OSFI and compares to 18.2 times as at October 31, 2003.

Economic Capital

We also calculate capital requirements utilizing risk assessment methodologies, attributing risk capital to business units in proportion to the risk inherent in their business activities. Known as Economic Capital, this non-GAAP measure differs from regulatory capital in that the amount of capital required is based on in-house models used to determine credit, liquidity, operational, market and other risk, as opposed to regulatory guidelines established by OSFI and Canadian GAAP financial information. Economic Capital levels have been consistently below Total regulatory capital indicating that we have adequate regulatory capital underpinning for the risks it assumes. An overview of Economic Capital is found on page 58.

Pending developments

Changes to the Basel II agreement for assessing capital adequacy were finalized in June of this year. The implementation will begin with a parallel run in fiscal 2006 and full compliance is expected by the end of 2007. We are actively preparing for the implementation of the Basel II framework as discussed on page 58, in the Risk management section.

Several changes in accounting principles have either been introduced or are being proposed in the areas of consolidation of variable interest entities (as described in Note 1 on page 82, and in Note 14 on page 95), classification of certain financial instruments as either equity or liabilities, and accounting determination of certain asset balances. These changes could significantly affect our reporting of assets and capital instruments. 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 23 Risk-adjusted assets (1)

(C$ millions, except percentage amounts)	Balance sheet amount	Weighted average of risk weights(2)	Risk-adjusted balance 2004	Risk-adjusted balance 2003
Balance sheet assets				
Cash and deposits with banks	$ 11,096	17%	**$ 1,833**	$ 2,026
Securities				
Issued or guaranteed by Canadian or other OECD governments	29,536	—	**30**	28
Other	99,410	7%	**7,062**	4,557
Residential mortgages (3)				
Insured	36,321	1%	**390**	377
Conventional	47,822	51%	**24,561**	21,951
Other loans and acceptances (3)				
Issued or guaranteed by Canadian or other OECD governments	14,523	19%	**2,828**	3,778
Other	128,923	69%	**88,412**	82,169
Other assets	61,565	13%	**7,852**	6,996
	$ 429,196		**$132,968**	$121,882

	Contract amount	Credit conversion factor	Credit equivalent amount			
Off-balance sheet financial instruments						
Credit instruments						
Guarantees and standby letters of credit						
Financial	$ 15,097	100%	$15,097	79%	**$ 11,918**	$ 13,201
Non-financial	3,523	50%	1,761	85%	**1,503**	1,519
Documentary and commercial letters of credit	592	20%	118	39%	**46**	399
Securities lending	27,055	100%	27,055	8%	**2,158**	1,087
Commitments to extend credit						
Original term to maturity of 1 year or less	45,682	—	—	—	**—**	—
Original term to maturity of more than 1 year	28,912	50%	14,456	96%	**13,828**	13,357
Uncommitted amounts	60,972	—	—	—	**—**	—

Note issuance/revolving underwriting facilities	23	50%	12	100%	**12**	12
	$ 181,856		$58,499		**$ 29,465**	$ 29,575
Derivatives (4)	2,522,309		33,954	26%	**8,739**	6,320
Total off-balance sheet financial instruments	$2,704,165		$92,453		**$ 38,204**	$ 35,895
Total specific and general market risk					**12,237**	9,134
Total risk-adjusted assets					**$183,409**	$166,911

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

(2) Represents the weighted average of counterparty risk weights within a particular category.

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

(4) Includes non-trading credit derivatives given guarantee treatment for credit risk capital purposes.

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 71 to 72 and the Risk management discussion on pages 57 to 61. Additionally, off-balance sheet financing arrangements are often integral to both liquidity and capital resources, and are discussed in detail on pages 68 to 71 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 60, 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 operating limits for interest rate risk. We endeavour to adopt the industry's best practices and carry out the following functions:

Policy

The CR&RPC approves the global policies governing interest rate risk management. The policies define the management standards and 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 point 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 net present value of our assets, liabilities and off-balance sheet instruments.

Interest rate funds transfer pricing

We use a funds transfer pricing mechanism at the transaction level to transfer interest rate risk to Corporate Treasury and to quantify the spread earned by the various business units. 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 the impact of 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 focus on modeling the sensitivity of the value of deposits with an indefinite maturity 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. Key Rate Analysis is utilized as a primary tool for risk management. It 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 the risks to the value of equity and net interest income.

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 nonlinear risk based on the varying responses of different components of the balance sheet to 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.

We continually monitor the effectiveness of our interest rate risk mitigation activity within Corporate Treasury on a value basis. As a part of this exercise, the model assumptions are validated against actual client behaviour.

Table 24 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

Table 24 Market risk measures – Non-trading activities (1)

(C$ millions)	2004		2003		2002	
	Economic value of equity risk	Net interest income risk	Economic value of equity risk	Net interest income risk	Economic value of equity risk	Net interest income risk
100bp increase	$ (412)	$ 70	$ (423)	$ 115	$ (309)	$ 104
100bp decrease	215	(150)	261	(126)	145	(151)
200bp increase	$ (882)	$ 107	$ (869)	$ 207	$ (662)	$ 190
200bp decrease	405	(314)	545	(294)	345	(327)

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

measures are as of October 31, 2004, 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 the interest rate sensitivity of all the liabilities is matched by a portion of the assets, with the residual assets – representing the notional investment of equity – invested evenly over a five-year horizon. This establishes our preferred trade-off between the risk to the value of our equity and the risk to the net interest income due to interest rate changes.

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.

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 GRC 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. The Audit Committee and the CR&RPC approve our liquidity management framework and significant related policies, and the board 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, we manage our liquidity position on a consolidated basis. 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 maxi-mum estimated 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, revise 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 a 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 model 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 for overall group exposure and by major currency and geographic location that are approved by the GRC and confirmed by the Audit Committee of the board. 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 represent a dedicated and reliable source of emergency funding since they must be traded in broad and active secondary markets and/or be eligible collateral for central bank borrowings and can, therefore, be readily sold or pledged for secured borrowing. In our base case stress scenario, 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 activities that encumber or otherwise restrict availability of assets are subject to a board-approved, enterprise-wide pledging framework, which imposes a global, risk-adjusted limit on pledged assets. Assets that are encumbered, dedicated to specific requirements or needed for collateral purposes 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 $185 billion or 41% of total assets at October 31, 2004, as compared to $178 billion or 43% at October 31, 2003. Liquid assets are primarily diversified and

highly rated marketable securities. As at October 31, 2004, $18 billion of assets had been pledged as collateral, up from $14 billion at October 31, 2003. We have another $46 billion in obligations related to assets sold under repurchase agreements and securities sold short at October 31, 2004, compared to $46 billion at October 31, 2003. For further details, see Note 21 on page 104.

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 to engage in certain collateralized business activities on a cost-effective basis is primarily dependent upon maintaining competitive credit ratings, which in turn is largely determined by the quality of our earnings, the adequacy of our capital and the effectiveness of our risk management programs. We estimate, based on periodic reviews of ratings triggers embedded in our existing businesses and of our funding capacity sensitivity that a minor downgrade would not materially influence our funding access, collateral usage and associated costs. However, 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 collateral requirements and on the results of our operations and financial condition.

Deposit profile

The composition of our global deposit liabilities is summarized in Note 11 on page 93. 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 the principal source of consistently dependable funding while certain commercial and institutional client groups also maintain relational balances with low volatility profiles. Taken together, these depositors represent a highly stable supply of core deposits under most contemplated conditions as they typically are less responsive to market developments than transactional lenders and investors due to the impact of deposit insurance and to extensive and, at times, exclusive relationships with us. Rather than contractual or repricing terms, expected behavioural characteristics, based on observed balance patterns and on assumed reactions to a range of circumstances for various deposit categories, are used to define core deposits. As at October 31, 2004, our core deposits represented about 60% of our total 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 our long-term funding activities, including currency mix and market concentration decisions. 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. To achieve these objectives, we operate debt issuance programs in Canada, the United States and Europe. During fiscal 2004, we continued to expand our long-term funding base by issuing, either directly or through our subsidiaries, $4.2 billion of senior deposit notes in various currencies and markets. Total long-term funding outstanding on October 31, 2004, was $15.2 billion, compared to $14.2 billion on October 31, 2003. Outstanding senior debt containing ratings triggers, which would accelerate repayment, constitutes a very small proportion of our overall outstanding debt.

We use commercial mortgage, residential mortgage and credit card receivable-backed securitization programs as alternative sources of funding and for liquidity and asset/liability management purposes. During 2004, we diversified our funding sources by establishing Real Estate Asset Liquidity Trust, a commercial mortgage-backed issuance vehicle. We sold $242 million of commercial mortgages to this vehicle as well as $244 million of commercial mortgages to a third-party securitization special purpose entity during the year. In addition, $3.1 billion of new financing was obtained through the securitization and sale of government guaranteed residential mortgages. We hold retained interests in our residential mortgage and credit card securitization programs. Our total outstanding mortgage-backed securities (MBS) sold at October 31, 2004, was $6.0 billion. As of October 31, 2004, $1.9 billion of our credit card receivables were financed through notes issued by a securitization special purpose entity (see Note 7 on pages 90 and 91, and off-balance sheet arrangements on page 68).

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 25 below provides a summary of our future contractual funding commitments.

Table 25 Contractual obligations

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Unsecured long-term funding	$ 1,787	$ 6,225	$ 6,076	$ 1,132	$15,220
Subordinated debentures	—	—	152	8,370	8,522
Obligations under capital leases	376	643	491	829	2,339
Obligations under operating leases	29	43	7	—	79
Other long-term debt obligations	—	—	—	900	900

$ 2,192	$ 6,911	$ 6,726	$ 11,231	$27,060

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 57 to 61.

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. Each of these types of arrangements, including its 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, credit 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 58 and 59).

All derivatives are recorded at fair value on our balance sheet (valuation methodologies are discussed on page 27). 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 $2,524 billion at October 31, 2004, compared to $2,141 billion at October 31, 2003. The fair value of our trading and non-trading derivative assets totalled $38.4 billion and $2.0 billion compared to $35.2 billion and $1.7 billion, respectively, at October 31, 2003, while the fair value of our trading and non-trading derivative liabilities totalled $41.9 billion and $1.5 billion compared to $37.6 billion and $1.1 billion, respectively, at October 31, 2003. 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 22 on pages 79 to 83, and 106 to 107, 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 may also be used in connection with structured finance activities. 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 from what is conventionally available. We also use SPEs to make loan substitute investments and as a mechanism to indirectly invest in financial assets and financing businesses.

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 the Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R). We do not consolidate VIEs unless we are their Primary Beneficiary as defined in FIN 46R. FIN 46R considers an enterprise to be the Primary Beneficiary of a VIE if it is exposed to a majority of the VIE's expected losses or expected residual returns or both. Expected losses and expected residual returns are specifically defined in FIN 46R.

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 involvement with SPEs through our Structured Transactions Oversight Committee and our SPE Risk Committee. The Structured Transactions Oversight Committee comprises senior executive representatives from risk management, finance, corporate treasury, law and the capital markets business. It is responsible for the review of structured transactions and complex credits with potentially significant reputational, legal, regulatory, accounting or tax risks, including transactions involving SPEs. The SPE Risk Committee, comprising representatives from functional areas including risk management, corporate treasury, finance, subsidiary governance, law and taxation, is responsible for formulating policies governing SPEs and for monitoring their ongoing activities.

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, 2004, total credit card receivables securitized and held off-balance sheet amounted to $1.9 billion, compared to $2.7 billion at October 31, 2003. The carrying value of our retained interests in securitized credit card receivables at October 31, 2004, was $13 million compared to $20 million in 2003, and amounts receivable under subordinated loan agreements were $5 million compared to $9 million in 2003.

Residential mortgage loans

We routinely securitize residential mortgage loans through the creation of mortgage-backed securities (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. We do not consolidate this SPE because our level of participation in this SPE relative to others does not expose us to a majority of its expected losses or expected residual returns.

At October 31, 2004, total residential mortgage loans securitized and held off-balance sheet amounted to $6.0 billion, compared to $2.9 billion at October 31, 2003. The carrying value of our retained interests in securitized residential mortgage loans at October 31, 2004, was $131 million compared to $95 million in 2003.

Commercial mortgage loans

We securitize commercial mortgages by selling them, in collateral pools that meet certain diversification and return criteria, to an SPE. The SPE finances the purchase of these pools by way of issuing notes that carry varying degrees of subordination and which, when rated, range from AAA to B-, and unrated, with the unrated tranches carrying deeper levels of subordination. The notes represent undivided interests in the collateral pool, and the SPE, having sold all undivided interests available in the pool, retains none of the risk of the collateral pools. The sale of our commercial mortgages to the SPE constitutes a true accounting sale and since we neither control the SPE nor carry any residual risk/returns in the mortgages, we do not consolidate the SPE. As part of the sales contract to the SPE , we continue to be the primary servicer of the loans, under contract with a master servicer for the SPE.

There are a variety of purposes for this securitization,which include increasing the velocity with which our capital is employed, optimizing the use of the resources we apply to real estate lending and diversification of funding. As at October 31, 2004, $242 million of our originated commercial mortgages had been securitized through Real Estate Asset Liquidity Trust, an SPE sponsored by us, while $244 million of commercial mortgages had been sold to a third-party sponsored SPE during the year. This compares with $131 million sold to the third-party SPE during 2003.

Further details about the securitization of our financial assets during the year are shown in Note 7 on pages 90 to 91.

Capital trusts

We have issued a senior deposit note to a company-sponsored SPE RBC Capital Trust II, which raised capital (TruCS) that qualifies as Tier 1 regulatory capital. Under current U.S. GAAP, we are not the Primary Beneficiary of this SPE and are therefore precluded from consolidating its assets and liabilities. We recognized interest expense of $52 million during 2004 ($14 million during 2003) on the senior deposit note issued to this SPE. For further details on our capital trust activity, including RBC Capital Trust, which we do consolidate pursuant to current U.S. GAAP, and the terms of the TruCS issued and outstanding, refer to Note 14 on page 95. The status of such instruments as Tier 1 regulatory capital is conditional upon their Canadian GAAP accounting treatment. Certain changes to Canadian GAAP effective November 1, 2004, will result in classification of asset-backed TruCS issued by RBC Capital Trust as a liability and result in deconsolidation of loan-backed TruCS issued by RBC Capital Trust II. OSFI has grandfathered Tier 1 treatment for our existing TruCS. However, for future capital needs we continue to assess alternate structures to achieve consolidation and classification as equity, as preconditions to obtain Tier 1 treatment.

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 conduits) totalling $25.6 billion as at October 31, 2004, and $26.8 billion as at October 31, 2003. We currently administer five multi-seller conduits – three in Canada and two in the United States. These five multi-seller conduits have purchased financial assets from our clients totalling $18.5 billion. The five multi-seller conduits that we administer are not consolidated on our balance sheet as at October 31, 2004. Under FIN 46R, which came into effect this year, we concluded that these SPEs were VIEs and we were their Primary Beneficiary. Thus, we would have been required to consolidate them. However, after completing a restructuring of these SPEs during 2004, we concluded that we would not be the Primary Beneficiary of any of them. The two multi-seller conduits in the U.S. were restructured in January 2004 while the three in Canada were restructured in October 2004. While the form of the U.S. and Canadian restructurings differed due in part to structural differences, the economic substance of these restructurings was similar. As part of the restructurings, an unrelated third party (the "expected loss investor") agreed to absorb credit losses (up to a maximum contractual amount)that may occur in the future on the assets in the multi-seller conduits (the "multi-seller conduit first-loss position") before us and the multiseller conduit's debt holders. In return for assuming this multi-seller conduit first-loss position, the expected loss investor is paid by the multi-seller conduit a return commensurate with its risk position. Moreover, each multi-seller conduit has granted to the expected loss investor material voting rights including the right to approve any transaction prior to the multi-seller conduit purchasing and financing a transaction. We calculated our total expected losses and expected residual returns as defined in FIN 46R from our variable interests with each multi-seller conduit. We performed a similar calculation for the expected loss investor. We have concluded that for each of the five multi-seller conduits, the expected loss investor absorbs a majority of each multi seller conduit's expected losses and expected residual returns when compared to us and therefore we are not the Primary Beneficiary of any of them.

We are involved in the multi-seller conduit 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 conduits to diversify their financing sources and to reduce funding costs by leveraging the value of high-quality collateral.

The multi-seller conduits purchase various financial assets from clients and finance the purchases by issuing highly rated asset-backed commercial paper. The multi-seller conduits 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 conduits. We provide or retain certain services such as transaction structuring and administration as specified by the multi-seller conduit 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 conduits. We have no rights to, or control of, the assets owned by the multi-seller conduits.

Fee revenue for such services, which is reported as non-interest income, amounted to $44 million during the year compared to $34 million during 2003.

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

Asset class

(C$ millions)	2004	2003
Credit cards	**$ 4,695**	$ 6,248
Equipment receivables	**3,530**	2,566
Trade receivables	**3,193**	3,680
Auto loans and leases	**2,486**	3,681
Asset-backed securities	**1,799**	952
Consumer loans	**868**	1,004
Residential mortgages	**660**	1,138
Other loans	**584**	1,159
Dealer floor plan receivables	**—**	1,269
Other	**714**	754
	$18,529	$22,451

The commercial paper issued by each multi-seller conduit is in the multi-seller conduit's own name with recourse to the financial assets owned by the multi-seller conduit. The multi-seller conduit 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 conduits that we administer. Each multi-seller conduit is largely prohibited from issuing medium-term notes or other forms of indebtedness to finance the asset purchases. Consequently, each multi seller conduit's commercial paper liabilities are generally equal to the assets owned by that multi-seller conduit. The small difference between each of the multi-seller conduit's asset and liability balances is mostly related to the discount or interest costs attributable to the commercial paper. As of October 31, 2004, the total face amount of commercial paper issued by the multi-seller conduits equaled $18.58 billion, generating $18.53 billion 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 also included in our discussion on Guarantees below, are shown in the following table:

Liquidity and credit facilities

	2004		2003	
(C$ millions)	**Committed (1)**	**Outstanding**	**Committed (1)**	**Outstanding**
Liquidity facilities	**$ 25,443**	**$ —**	$ 25,727	**$ —**
Credit facilities	**3,935**	**—**	6,791	**—**

(1) Our maximum exposure to loss under these facilities is $25.4 billion for 2004 and $25.7 billion for 2003.

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 59. The liquidity risk to us is deemed to be low based on the historical performance and high credit quality of the multi-seller conduits' 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 transfer our assets to the SPEs with an obligation to buy these assets back in future and may enter into derivative contracts with these SPEs in order to convert various risk factors such as yield, currency or credit risk of underlying assets to meet the needs of 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; rather we buy credit protection from these SPEs through credit derivatives. The investors in the notes ultimately bear any payments made by the SPE under these credit derivatives. 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. We do not consolidate these SPEs unless we own a majority of a notes issuance,in which case we consolidate the associated transactions. 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, the derivatives with these SPEs are carried at fair value in derivative-related assets and liabilities. The assets in these SPEs amounted to $2.4 billion as at October 31, 2004 (2003 – $1.5 billion).

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 2004 was US$1.3 billion (2003 – US$.8 billion). Although we have nominal investments in the first-loss tranche of each of three CDOs with assets totalling US$1.1 billion (2003 – one CDO with assets totalling US$300 million), 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. We do not consolidate these CDOs as we are not their Primary Beneficiary under FIN 46R.

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 structuring and collateral management services and, where indicated, interest income from investments in individual CDOs. These revenues totalled $10 million during 2004 (2003 – $3 million).

Structured finance

We occasionally make loan substitute and equity investments in off-balance sheet entities that are part of transactions structured to achieve a desired outcome such as limiting exposure to specific assets or risks, achieving indirect (and usually risk mitigated) exposure to financial assets, supporting an enhanced yield and meeting client requirements. These transactions usually yield a higher return, either before- or after-tax, than financing non-SPE counterparties, or holding an interest in financial assets directly. These transactions are structured to mitigate risks associated with directly investing in the underlying financial assets and may be structured so that our ultimate credit risk is that of then on-SPE, which in most cases is another financial institution. Exit mechanisms are built into these transactions to curtail exposure from changes in law or regulations. These entities had total assets of $8.2 billion as at October 31, 2004. Our total exposure to these entities is $3.3 billion, which is reflected on our balance sheet. Sometimes our interest in such an entity exposes us to a majority of its expected losses, resulting in consolidation.

For other types of off-balance sheet arrangements we enter into through VIEs, please refer to Note 8 on pages 91 to 92. As mentioned in Note 8, we continue to monitor developments that affect our current interpretation of FIN 46R. These developments may change our conclusion whether to consolidate these entities or not. These changes may impact future usage of these arrangements.

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, credit derivatives, written put options, financial standby letters of credit, credit enhancements, stable value products, performance guarantees and certain indemnification agreements.

Our maximum potential amount of future payments in relation to these items at October 31, 2004, amounted to $83 billion (2003 – $61 billion). 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.

Note 21 on page 104 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 on us up to a stipulated amount and typically having underlying shipments of goods as collateral. We make commitments to extend credit, which represent unused portions of authorizations to extend credit in the form of loans, acceptances and letters of credit. We also have uncommitted amounts, where we retain the option to extend credit to a borrower. Table 26 below provides a summary of our off-balance sheet commercial commitments.

Table 26 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	$ 500	$ 65	$ 2	$ 25	$ 592
Commitments to extend credit	45,682	15,778	9,319	3,815	74,594
Uncommitted amounts	60,972	—	—	—	60,972
	$ 107,154	$ 15,843	$ 9,321	$ 3,840	$136,158

(1) Based on remaining term to maturity.

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 57.

By their very nature, 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 beliefs, plans, objectives, expectations, anticipations, 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 general economic conditions in each of the countries in which we conduct business.

Factors such as interest rates, foreign exchange rates, consumer spending, business investment, government spending, the health of the capital markets, inflation and terrorism impact the business and economic environments in which we operate and, ultimately, the amount of business we conduct in a specific geographic region. For example, in an economic downturn in a particular country that is 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 a particular equity market could cause a reduction in new issue and investor trading activity, assets under management and assets under administration, resulting in lower fee, commission and other revenues.

The movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar, may affect our revenues, expenses and earnings.

Our revenues, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations in the movement of the Canadian dollar relative to such currencies. Such fluctuations may affect our overall business and financial results. Our most significant exposure is to the U.S. dollar on account of our level of operations in the U.S.,and the increase of the Canadian dollar compared to the U.S. dollar has had a material effect on our results in the past two years. Further appreciation of the Canadian dollar relative to the U.S. dollar would reduce the translated value of U.S. dollar-denominated revenues, expenses and earnings compared to prior periods.

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, fluctuation of which can have an impact on our 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 65. 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 60.

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

The competition for customers 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 our products or services, our reputation and actions taken by our competitors. Non-financial companies can provide consumers with the option to pay bills and transfer funds without involving banks. Securities transactions

can be conducted through the Internet and other alternative, non-trading systems. Such disintermediation could also reduce fee revenues and adversely affect our earnings.

Changes in the statutes, regulations and regulatory policies that govern activities in our various business lines could affect 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, implementation or enforcement of statutes, regulations or regulatory policies, could adversely affect us by increasing the ability of competitors to compete with the products and services we provide and increasing our costs of compliance. 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.

Judicial or regulatory judgments and legal proceedings against us may adversely affect our results.

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 damage our reputation and have a negative impact on our earnings.

We are also subject to litigation arising in the ordinary course of our business. The adverse resolution of any litigation could have a material adverse effect on our results or could give rise to significant reputational damage, which could impact our future business prospects.

Failure to obtain accurate and complete information from or on behalf of our customers and counterparties could adversely affect 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 results could be adversely impacted if the financial statements and other financial information relating to customers and counterparties on which we rely do not comply with GAAP or are materially misleading.

Company specific factors

Our financial performance may be affected by our ability to successfully complete our business realignment.

Effective November 1, 2004, we realigned our organizational structure, resources and processes in order to serve our clients better and more efficiently across all our businesses, to find new ways to generate stronger revenue growth, and to streamline our organization and processes for faster decision-making, quicker implementation and better productivity. Although we believe that our initiatives will help us to better meet our clients'needs, accelerate revenue growth and control costs, there is no assurance that we will achieve these objectives and improve our financial performance.

Our financial performance will be influenced by our ability to complete strategic acquisitions and to integrate acquisitions successfully, including our ability to successfully execute our U.S. expansion strategy.

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 complete acquisitions on terms and conditions that satisfy our investment criteria. There is also no assurance we will achieve anticipated cost savings following acquisitions. 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 first phase of our U.S. expansion strategy consisted of putting together the original building blocks by acquiring businesses largely in the personal and commercial banking, wealth management and insurance areas. The second phase entailed adding to these original building blocks through additional strategic acquisitions, branch openings and greater market penetration. The third phase entails reducing costs and enhancing profitability by focusing on high-growth markets through initiatives such as strategic branch openings and closing low performing branches. There are significant risks and uncertainties associated with our U.S. expansion including the risk of failure to realize anticipated savings, retain key employees, integrate new customers with our business and our ability to realize profitability improvement.

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. Such estimates and assumptions may require revision, and changes to them may materially adversely affect our results of operations and financial condition.

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 in Note 1 on pages 79 to 83.

As detailed in Critical accounting policies and estimates section on pages 26 to 28, four accounting policies have been identified as being "critical" to the presentation of our financial condition and results of operations as they (i) require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and (ii) carry the likelihood that materially different amounts could be reported under different conditions or using different assumptions and estimates. The reporting of such materially different amounts could materially and adversely affect our results of operations or reported financial condition. These critical accounting policies and estimates relate to

the determination of our allowances for credit losses, the determination of the fair value of certain of our financial instruments, securitization and variable interest entities, and pensions.

As a large corporation, we are exposed to operational and infrastructure risks.

Similar to all large corporations, we are exposed to many types of operational risk, including the risk of fraud by employees or outsiders, unauthorized transactions by employees, or operational errors, including clerical or record keeping errors or errors resulting from faulty or disabled computer or telecommunications systems. Given the high volume of transactions we process on a daily basis, certain errors may be repeated or compounded before they are discovered and successfully rectified. Shortcomings or failures in our internal processes, people or systems, including any of our financial, accounting or other data processing systems, could lead to, among other consequences, financial loss and reputational damage. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business.

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 the possible impact on our business of international conflicts and other developments including those relating to the war on terrorism, 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 our forward-looking statements to make decisions with respect to us, 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.

2003 COMPARED TO 2002

The following discussion and analysis provides a comparison of our results of operations for the years ended October 31, 2003, and October 31, 2002. This discussion should be read in conjunction with the consolidated financial statements and related Notes on pages 74 to 110. Reference is also made to our 2003 report to shareholders for a much more detailed discussion.

Net income in 2003 increased by $138 million or 5% over 2002 predominantly reflecting a reduction in the provision for credit losses of $350 million,which more than offset a $60 million decline in net income due to the strengthening of the Canadian dollar relative to the U.S. dollar.

Business segment results

Net income from RBC Banking increased $8 million or 1% to $1,554 million in 2003, 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 2003. ROE increased from 19.2% to 20.8% due to lower common equity attributed to this segment and higher earnings.

Net income from RBC Investments was up $66 million or 19% to $412 million 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 in 2003 was up $89 million, with significantly improved performance in the full-service brokerage business, strong fixed income results and a decline in retention compensation costs. 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.

Net income from RBC Insurance increased $38 million or 20% to $228 million in 2003 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. U.S. net income in 2003 was down $14 million to $8 million. The decline largely reflected costs for integrating Business Men's Assurance Company of America (BMA), acquired in May 2003, and a $7 million loss in BMA due to lower interest rates in the United States. ROE increased from 25.7% to 26.4% due to higher earnings.

Net income from RBC Capital Markets increased $52 million or 12% to $491 million 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. 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.

Net income from RBC Global Services was up $5 million or 3% to $178 million in 2003, as higher revenues, a lower provision for credit losses and lower income taxes offset higher non-interest expense. ROE fell 100 basis points in 2003 to 27.7%, primarily reflecting $50 million in additional average common equity attributed to this segment in 2003.

The Other segment's net income declined $31 million to $173 million in 2003 due largely to refinements in the methodology for attributing net interest income to our business segments. ROE fell to 7.7% from 25.0%, largely due to higher average common equity.

Net interest income

Net interest income decreased 4% to $6.6 billion in 2003 from $6.9 billion in 2002, reflecting a decline in the net interest margin due to price competition in retail banking and low interest rates, and a lower translated value of U.S. dollar-denominated net interest income due to the strengthening of the Canadian dollar relative to the U.S. dollar.

Non-interest income

Non-interest income increased $178 million or 2% to $10.4 billion in 2003 primarily due to increased trading revenues, higher insurance premiums and gain on sale of available for sale securities, which more than offset a $375 million decline in the translated value of U.S. dollar-denominated revenues due to the strengthening of the Canadian dollar relative to the U.S. dollar in 2003. Non-interest income accounted for 61% of total revenues.

Non-interest expense

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.

Provision for credit losses

The provision for credit losses decreased $350 million or 33% to $715 million in 2003 from $1,065 million in 2002 largely due to improvements in the U.S. business and government loan portfolio. The total allowance for credit losses was $2.2 billion, or 1.2% of total loans and acceptances, down from $2.3 billion or 1.2% in 2002.

Taxes

Taxes were $1.4 billion in 2003, up from 2002, while the effective income tax rate was 31.4% compared to 32.0% in 2002.

QUARTERLY FINANCIAL INFORMATION

Selected financial information for the eight most recently completed quarters is shown on page 116.

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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 accounting principles generally accepted in the United States of America. 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 is designed to ensure that we and our employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of our 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 our existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. Our 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 and Chief Executive Officer

Janice R. Fukakusa
Chief Financial Officer

Toronto, December 20, 2004

AUDITORS'REPORT TO SHAREHOLDERS

To the Shareholders of Royal Bank of Canada

We have audited the consolidated balance sheets of Royal Bank of Canada as at October 31, 2004 and 2003, 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, 2004. 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, 2004 and 2003, and the results of its operations and its cash flows for each of the years in the two-year period ended October 31, 2004, in accordance with accounting principles generally accepted in the United States of America.

We also reported separately on December 20, 2004, 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, 2004 and 2003, consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements for the year ended October 31, 2002, prior to the assessment of the impact of subsequent significant accounting changes including changes in financial statement presentation as disclosed in Note 1, the presentation of segment information in Note 3, the change in the calculation of earnings per share in Note 20, and other reclassifications to the 2002 consolidated financial statements, 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 consolidated financial statements in their report dated November 19, 2002. We have audited the changes described in Notes 1, 3, 20, and other reclassifications to the 2002 consolidated financial statements, that were applied to the 2002 financial statements and in our opinion, such changes, in all material respects, are appropriate and have been properly applied.

Deloitte & Touche LLP
Chartered Accountants
Toronto, December 20,2004

CONSOLIDATED BALANCE SHEET

As at October 31 (C$ millions)	2004	2003
Assets		
Cash and due from banks	**$ 4,758**	$ 2,887
Interest-bearing deposits with banks	**5,236**	3,092
Securities		
Trading account (pledged – $14,850 and $11,791)	**87,635**	86,719
Available for sale	**39,861**	41,619
	127,496	128,338
Assets purchased under reverse repurchase agreements	**34,862**	36,289
Loans		
Residential mortgage	**84,172**	78,819
Personal	**36,848**	32,186
Credit card	**6,456**	4,816
Business and government	**61,678**	56,726
	189,154	172,547
Allowance for loan losses	**(1,644)**	(2,055)
	187,510	170,492
Other		
Customers' liability under acceptances	**6,184**	5,943
Derivative-related amounts	**40,081**	36,640
Premises and equipment	**1,731**	1,655
Goodwill	**4,416**	4,633
Other intangibles	**523**	580
Reinsurance recoverables	**1,701**	3,321
Separate account assets	**120**	224
Other assets	**33,064**	18,497
	87,820	71,493
	$447,682	$412,591
Liabilities and shareholders' equity		
Deposits		
Canada		
Non-interest-bearing	**$ 28,273**	$ 24,388
Interest-bearing	**141,177**	130,135
International		
Non-interest-bearing	**3,169**	3,183
Interest-bearing	**98,956**	102,812
	271,575	260,518
Other		
Acceptances	**6,184**	5,943
Obligations related to securities sold short	**23,815**	22,743
Obligations related to assets sold under repurchase agreements	**21,705**	23,735
Derivative-related amounts	**42,870**	38,427
Insurance claims and policy benefit liabilities	**9,352**	8,630
Separate account liabilities	**120**	224
Other liabilities	**43,640**	26,199
	147,686	125,901
Subordinated debentures	**8,522**	6,581
Non-controlling interest in subsidiaries	**1,524**	1,474
Shareholders' equity		
Preferred shares	**813**	813
Common shares (shares issued and outstanding – 644,747,812 and 656,021,122)	**6,966**	6,999
Additional paid-in capital	**229**	88
Retained earnings	**12,347**	11,591
Treasury stock (shares held – 5,815,487 and nil)	**(348)**	—
Accumulated other comprehensive income(loss)	**(1,632)**	(1,374)
	18,375	18,117
	$447,682	$412,591

Gordon M. Nixon
President and Chief Executive Officer

Robert B. Peterson
Director

CONSOLIDATED STATEMENT OF INCOME

For the year ended October 31 (C$ millions)	2004	2003	2002
Interest income			
Loans	**$ 9,819**	$ 10,039	$ 10,367
Trading account securities	**2,603**	2,049	2,115
Available for sale securities	**854**	976	1,060
Assets purchased under reverse repurchase agreements	**531**	806	688
Deposits with banks	**142**	111	159
	13,949	13,981	14,389
Interest expense			
Deposits	**5,210**	5,467	5,709
Other liabilities	**1,626**	1,560	1,405
Subordinated debentures	**429**	376	406
	7,265	7,403	7,520
Net interest income	**6,684**	6,578	6,869
Non-interest income			
Insurance premiums, investment and fee income	**2,267**	2,045	1,910
Trading revenues	**1,526**	1,922	1,690
Investment management and custodial fees	**1,198**	1,143	1,177
Securities brokerage commissions	**1,166**	1,031	1,187
Deposit and payment service charges	**1,050**	1,078	1,041
Underwriting and other advisory fees	**909**	813	755
Mutual fund revenues	**850**	673	723
Foreign exchange revenues, other than trading	**331**	279	274
Card service revenues	**324**	303	285
Credit fees	**224**	227	223
Securitization revenues	**196**	165	172
Gain (loss)on sale of available for sale securities	**82**	19	(112)
Mortgage banking revenues	**51**	180	240
Other	**492**	491	626
	10,666	10,369	10,191
Total revenues	**17,350**	16,947	17,060
Provision for credit losses	**347**	715	1,065
Insurance policyholder benefits, claims and acquisition expense	**1,509**	1,404	1,330
Non-interest expense			
Human resources	**6,816**	6,397	6,263
Occupancy	**776**	731	751
Equipment	**875**	833	825
Communications	**689**	719	757
Professional fees	**493**	460	416
Outsourced item processing	**294**	292	306
Amortization of other intangibles	**69**	71	72
Other	**1,008**	733	854
	11,020	10,236	10,244
Business realignment charges	**192**	—	—
Goodwill impairment	**130**	—	—
Net income before income taxes	**4,152**	4,592	4,421
Income taxes	**1,194**	1,443	1,415
Net income before non-controlling interest	**2,958**	3,149	3,006
Non-controlling interest in net income of subsidiaries	**119**	113	108
Net income	**$ 2,839**	$ 3,036	$ 2,898
Preferred share dividends	**45**	68	98
Net income available to common shareholders	**$ 2,794**	$ 2,968	$ 2,800
Average number of common shares (in thousands)	**646,023**	662,080	672,571
Earnings per share (in dollars) (1)	**$ 4.31**	$ 4.47	$ 4.16
Average number of diluted common shares (in thousands)	**656,047**	669,625	679,153
Diluted earnings per share (in dollars) (1)	**$ 4.25**	$ 4.42	$ 4.12
Dividends per share (in dollars)	**$ 2.02**	$ 1.72	$ 1.52

(1) Restated comparatives as a result of EITF 03-6. See Note 1 on page 83.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31 (C$ millions)	2004	2003	2002
Preferred shares			
Balance at beginning of year	**$ 813**	$ 1,515	$ 1,990
Redeemed for cancellation	**—**	(634)	(464)
Translation adjustment on shares denominated in foreign currency	**—**	(68)	(11)
Balance at end of year	**813**	813	1,515
Common shares			
Balance at beginning of year	**6,999**	6,963	6,926
Issued	**124**	190	190
Issuance costs, net of related income taxes	**—**	—	(1)
Purchased for cancellation	**(157)**	(154)	(152)
Balance at end of year	**6,966**	6,999	6,963
Additional paid-in capital			
Balance at beginning of year	**88**	76	33
Renounced stock appreciation rights, net of related income taxes	**3**	5	29
Stock-based compensation awards	**68**	7	14
Reclassified amounts	**34**	—	—
Initial adoption of FIN 46R, *Consolidation of Variable Interest Entities*	**42**	—	—
Other	**(6)**	—	—
Balance at end of year	**229**	88	76
Retained earnings			
Balance at beginning of year	**11,591**	10,473	9,311
Net income	**2,839**	3,036	2,898
Preferred share dividends	**(45)**	(68)	(98)
Common share dividends	**(1,303)**	(1,137)	(1,022)
Premium paid on common shares purchased for cancellation	**(735)**	(698)	(612)
Issuance costs, net of related income taxes	**—**	(15)	(4)
Balance at end of year	**12,347**	11,591	10,473
Treasury stock			
Reclassified amounts	**(304)**	—	—
Net purchases	**(2)**	—	—
Initial adoption of FIN 46R, *Consolidation of Variable Interest Entities*	**(42)**	—	—
Balance at end of year	**(348)**	—	—
Accumulated other comprehensive income (loss), net of related income taxes			
Unrealized gains and losses on available for sale securities	**178**	113	202
Unrealized foreign currency translation gains and losses, net of hedging activities	**(1,551)**	(893)	(54)
Gains and losses on derivatives designated as cash flow hedges	**(192)**	(104)	(127)
Additional pension obligation	**(67)**	(490)	(293)
Balance at end of year	**(1,632)**	(1,374)	(272)
Shareholders' equity at end of year	**$18,375**	$18,117	$18,755
Comprehensive income, net of related income taxes			
Net income	**$ 2,839**	$ 3,036	$ 2,898
Other comprehensive income			
Change in unrealized gains and losses on available for sale securities	**65**	(89)	12
Change in unrealized foreign currency translation gains and losses	**(1,336)**	(2,988)	(59)
Impact of hedging unrealized foreign currency translation gains and losses	**678**	2,149	43
Change in gains and losses on derivatives designated as cash flow hedges	**(147)**	(57)	(50)
Reclassification to earnings of gains and losses on cash flow hedges	**59**	80	113
Additional pension obligation	**423**	(197)	(276)
Total comprehensive income	**$ 2,581**	$ 1,934	$ 2,681

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended October 31 (C$ millions)	2004	2003	2002
Cash flows from operating activities			
Net income	**$ 2,839**	$ 3,036	$ 2,898
Adjustments to determine net cash provided by (used in) operating activities			
Provision for credit losses	**347**	715	1,065
Depreciation	**384**	380	388
Business realignment charges	**192**	—	—
Deferred income taxes	**187**	120	45
Impairment of goodwill and amortization of other intangibles	**199**	71	72
Writedown of deferred issuance costs	**25**	—	—
Gain on sale of premises and equipment	**(52)**	(18)	(35)
Gain on loan securitizations	**(34)**	(34)	(54)
Loss on investment in certain associated companies	**24**	29	—
(Gain) loss on sale of available for sale securities	**(82)**	(19)	112
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	**(1,484)**	1,498	866
Net change in accrued interest receivable and payable	**(199)**	123	(166)
Current income taxes	**(895)**	672	419
Derivative-related assets	**(3,457)**	(5,390)	(2,608)
Derivative-related liabilities	**4,438**	5,690	3,289
Trading account securities	**(1,651)**	(9,988)	(11,017)
Reinsurance recoverables	**1,620**	(1,375)	(872)
Net change in brokers and dealers receivable and payable	**(2,001)**	272	704
Other	**557**	(5,439)	1,003
Net cash provided by (used in) operating activities	**957**	(9,657)	(3,891)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	**(2,722)**	1,003	338
Change in loans, net of loan securitizations	**(19,887)**	(6,509)	(4,891)
Proceeds from loan securitizations	**3,532**	1,742	1,691
Proceeds from sale of available for sale securities	**18,456**	19,575	16,741
Proceeds from maturity of available for sale securities	**38,093**	26,993	12,317
Purchases of available for sale securities	**(51,328)**	(49,734)	(33,450)
Net acquisitions of premises and equipment	**(422)**	(398)	(390)
Change in assets purchased under reverse repurchase agreements	**1,427**	796	1,570
Net cash provided by(used in)acquisition of subsidiaries	**438**	(281)	(99)
Net cash used in investing activities	**(12,413)**	(6,813)	(6,173)
Cash flows from financing activities			
Change in deposits –Canada	**14,927**	11,564	2,402
Change in deposits– International	**(3,870)**	3,045	4,997
Issue of subordinated debentures	**3,100**	—	635
Repayment of subordinated debentures	**(990)**	(100)	(505)
Redemption of preferred shares for cancellation	**—**	(642)	(461)
Issuance costs	**—**	(15)	(5)
Issue of common shares	**119**	183	168
Purchase of common shares for cancellation	**(892)**	(852)	(764)
Net purchases of treasury stock	**(2)**	—	—
Dividends paid	**(1,309)**	(1,181)	(1,104)
Dividends/distributions paid by subsidiaries to non-controlling interest	**(115)**	(107)	(107)
Change in obligations related to assets sold under repurchase agreements	**(2,030)**	2,626	245
Change in obligations related to securities sold short	**1,072**	4,753	1,953
Change in short-term borrowings of subsidiaries	**3,344**	(2,374)	3,362
Net cash provided by financing activities	**13,344**	16,900	10,816
Effect of exchange rate changes on cash and due from banks	**(17)**	(77)	(10)
Net change in cash and due from banks	**1,871**	353	742
Cash and due from banks at beginning of year	**2,887**	2,534	1,792
Cash and due from banks at end of year	**$ 4,758**	$ 2,887	$ 2,534
Supplemental disclosure of cash flow information			
Amount of interest paid in year	**$ 7,004**	$ 7,170	$ 8,229
Amount of income taxes paid in year	**$ 2,522**	$ 1,723	$ 738

Consolidated financial statements (all tabular amounts are in millions of Canadian dollars, except per share amounts)

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 accounting principles generally accepted in the United States (GAAP) and prevailing practices within the banking industry in that country. We have also prepared consolidated financial statements in accordance with Canadian GAAP and these have been provided to shareholders.

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

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

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

Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. Pursuant to Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R), as described in more detail in Note 8, we also consolidate variable interest entities (VIEs) where we are the entity's Primary Beneficiary. The equity method is used to account for investments in associated companies 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, which include consolidated VIEs, foreign branches and associated companies 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 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 in a fair value hedging relationship. 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 plus accrued interest. 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 Provision for credit losses on that loan. Nonaccrual loans are returned to performing status when all amounts including interest have been collected, all charges for nonaccrual loans 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 Provision for credit losses on the Consolidated statement of income. 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 credit losses.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 general 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. 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. All derivatives, including certain warrants, loan commitments and derivatives embedded in financial instruments or contracts that are not clearly and closely related to the economic characteristics and risks 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. A portion of the market value is deferred within Derivative-related amounts in liabilities to adjust for credit risk related to these contracts. The fair values of derivatives 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 change in fair value of the hedged item, to the extent that the hedge relationship is effective, 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 hedged item. 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 in Accumulated 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.

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 certain 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. 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.

Other intangibles with a finite life are amortized over their estimated useful lives, generally not exceeding 20 years, 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. Changes in deferred income taxes related to a change in tax rates are recognized in the period the tax rate change is enacted.

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, which is included in Non-interest expenses–Human resources, 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 unrecognized prior service costs, unrecognized net actuarial gains or losses and unrecognized transition asset or obligation. 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. Other postretirement benefits are 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.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 as described in 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.

Reinsurance recoverables related to ceding reinsurance arrangements are reported as an asset on the balance sheet. Where transfer of risk has occurred, insurance actuarial liabilities are presented on a gross basis with the reinsured portion included as reinsurance recoverable. Actuarial liabilities related to transactions where a transfer of risk has not occurred are also presented on a gross basis with the funds paid to the reinsurer accounted for as deposits and included in reinsurance recoverables.

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 benefits, claims and acquisition expense. Amortization of such costs is in proportion to premium revenue for short-and long-duration contracts and estimated gross profits for universal life and investment-type 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.

Earnings per share

Earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares

outstanding for the period, excluding Treasury stock. Net income available to common shareholders is determined after considering dividend entitlements of preferred shareholders and participating contracts. Diluted earnings per share reflects the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in future, to the extent such entitlement is not subject to unresolved contingencies.

Significant accounting changes

Consolidation of variable interest entities

On January 17, 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, which clarifies the application of Accounting Research Bulletin 51, *Consolidated Financial Statements*, to VIEs. This interpretation applied immediately to all VIEs created after January 31, 2003. On December 24, 2003, FASB issued a revision to Interpretation No. 46, which required application to new and existing VIEs by the end of the first reporting period that ended after March 15, 2004. We have applied FIN 46R to all VIEs as described in Note 8.

Change in financial statement presentation

During the year, we reviewed the presentation of certain items in transit accounts and reclassified, commencing November 1, 2003, balances owing to other banks that arise from the clearing settlement system. These amounts were previously recorded in Cash and due from banks and have been reclassified to Deposits – interest-bearing, Other liabilities and Other assets in order to more appropriately reflect the nature of these balances. Balances due from other banks that arise from the clearing settlement system will continue to be classified in Cash and due from banks. At October 31, 2004, $180 million, $1.7 billion and $1.1 billion in Cash and due from banks were reclassified to Deposits – interest-bearing, Other liabilities and Other assets, respectively.

We also reviewed the presentation of certain items on our Consolidated balance sheet and reclassified $3.2 billion (2003 – $5.7 billion) of certificates of deposit from Interest-bearing deposits with banks to Trading account securities, and $6.8 billion (2003 – $5.8 billion) to Available for sale securities in order to more appropriately reflect the nature of these instruments.

Treasury stock

Commencing November 1, 2003, we recorded as a deduction from total shareholders' equity our own shares acquired and held by subsidiaries for reasons other than cancellation. These shares are now presented as Treasury stock but were previously classified as Trading account securities and Other assets. The balance outstanding at the beginning of the year was reclassified from assets to Treasury stock. Treasury stock is recorded at historical cost and is reduced for any resales or transfers to employees under certain stock-based compensation arrangements. Any gains or losses on resales or transfers of Treasury stock are recognized in Additional paid-in capital or against Retained earnings, respectively.

Foreign currency denominated shares

Prior to November 1, 2003, our foreign currency-denominated preferred shares were translated at the rate prevailing at each balance sheet date. We are no longer changing the rate at which these shares are translated. The impact of this change was not significant to our consolidated financial statements.

Accounting for loan commitments accounted for as derivatives

On March 9, 2004, the United States Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments* (SAB 105), which applies to loan commitments issued for loans that will be held for sale when funded. SAB 105 specifies that revenue associated with servicing assets embedded in these commitments should be recognized only when the servicing asset has been contractually separated from the associated loans. SAB 105 is effective for all loan commitments entered into after March 31, 2004. Implementing SAB 105 resulted in deferring the recognition of $8 million of revenues for the period April 1, 2004 to October 31, 2004.

Classification of economic hedges

In December 2003, the SEC clarified its views on the income statement classification of economic hedges that do not qualify for hedge accounting under FAS 133, *Accounting for Derivative Instruments and Hedging Activities*. We have, therefore, reclassified the realized gains and losses on these hedges from Interest income – loans, to Non-interest income – other, such that the income, expenses and fair value changes related to these derivatives are now all recorded in one line on our Consolidated statements of income for current and prior periods.

Two-class method of calculating earnings per share (EITF 03-6)

The Emerging Issues Task Force (EITF) reached final consensus on EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share*, which was subsequently ratified by the FASB on March 31, 2004. The final consensus requires a change in the calculation of earnings per share to give effect to certain securities or other instruments or contracts that entitle their holders to participate in undistributed earnings of the reporting entity when such entitlement is nondiscretionary and objectively determinable. This consensus is effective for fiscal periods beginning after March 31, 2004, and requires retroactive adjustment to earnings per share presented for prior periods. EITF 03-6 reduced earnings per share for all years presented by less than one cent except for the year ended October 31, 2004, where the reduction in basic earnings per share was approximately one cent. Basic and diluted earnings per share presented for 2003 are restated to reflect a reduction of one cent.

Employers' disclosures about pensions and other postretirement benefits

In December 2003, the FASB issued FAS 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106* (FAS 132R), to require additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. It does not change the measurement or recognition of these plans. The required information should be provided separately for pension plans and other postretirement benefit plans. During the year, we adopted FAS 132R and the additional disclosures of our pension plans and other postretirement benefit plans are presented in Note 18.

Impairment of certain investments (EITF 03-1)

The EITF has reached consensus on EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, as it applies to investments accounted for under FAS 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115), and cost method investments accounted for under Accounting Principles Board Opinions No. 18, *The Equity Method of Accounting for Investments in Common Stock* (APB 18). The consensus was ratified by the FASB on November 25, 2003 and March 31, 2004, for FAS 115 and APB 18

investments, respectively. Subsequent to these ratifications, the FASB issued a Staff Position, FSP EITF 03-1-1, on September 30, 2004, to defer indefinitely the effective date for recognition and impairment guidance under the EITF, but not the quantitative and qualitative disclosure requirements on unrealized loss positions for all marketable equity securities, debt securities and cost method investments for which another-than-temporary impairment has not been recognized. These disclosures, which are applicable to annual financial statements for fiscal years ending after June 15, 2004, are presented in Note 5.

NOTE 2 SIGNIFICANT ACQUISITIONS

2004

During 2004, we completed the acquisitions of Provident Financial Group Inc. (Provident), William R. Hough & Co., Inc. (William R. Hough) and the Canadian operations of Provident Life and Accident Insurance Company (UnumProvident). The details of these acquisitions are as follows:

	Provident	William R. Hough	UnumProvident
Acquisition date	November 21, 2003	February 27, 2004	May 1, 2004
Business segment	RBC Banking	RBC Investments	RBC Insurance
Percentage of share acquired	n.a.	100 %	n.a.
Purchase consideration	Cash payment of US$81	Cash payment of US$112	n.a. (2)
Fair value of tangible assets acquired	$ 1,145	$ 54	$ 1,617
Value of business acquired (VOBA) (1)	—	—	611
Fair value of liabilities assumed	(1,180)	(21)	(2,228)
Fair value of identifiable net tangible assets acquired	(35)	33	—
Core deposit intangibles (1)	13	—	—
Customer lists and relationships (2)	—	12	—
Goodwill	127	105	—
Total purchase consideration	$ 105	$ 150	$ —

(1) RBC Insurance acquired the Canadian operations of UnumProvident. As part of the acquisition, RBC Insurance assumed UnumProvident's policy liabilities and received assets with the equivalent fair value to support future payments. Assets acquired include VOBA that is amortized in proportion to insurance premiums received on the acquired block of business from UnumProvident.

(2) Core deposit intangibles and customer lists and relationships are amortized on a straight-line basis over an estimated average useful life of 8 and 15 years, respectively.

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	—	—
VOBA (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) VOBA is amortized on a straight-line basis over a period of up to 30 years.

NOTE 3 RESULTS BY BUSINESS AND GEOGRAPHIC SEGMENT

2004	RBC Banking	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,517	$ 429	$ –	$ 716	$ 177	$ (155)	$ 6,684	$ 5,173	$ 1,117	$ 394
Non-interest income	2,036	3,322	2,267	2,123	742	176	10,666	5,797	3,260	1,609
Total revenues	7,553	3,751	2,267	2,839	919	21	17,350	10,970	4,377	2,003
Provision for credit losses	478	4	–	(80)	(19)	(36)	347	344	61	(58)
Insurance policyholder benefits, claims and acquisition expense	–	–	1,509	–	–	–	1,509	769	399	341
Non-interest expense	4,841	3,015	472	2,052	625	15	11,020	6,343	3,695	982
Business realignment charges	75	17	8	25	3	64	192	142	44	6
Goodwill impairment	130	–	–	–	–	–	130	–	130	–
Net income (loss) before income taxes	2,029	715	278	842	310	(22)	4,152	3,372	48	732
Income taxes	726	225	7	182	86	(32)	1,194	1,103	12	79
Non-controlling interest	16	–	–	2	–	101	119	108	6	5
Net income (loss)	$ 1,287	$ 490	$ 271	$ 658	$ 224	$ (91)	$ 2,839	$ 2,161	$ 30	$ 648
Total average assets (1)	$172,300	$ 17,700	$ 12,100	$ 234,000	$ 1,900	$13,400	$451,400	$253,100	$97,000	$101,300

2003	RBC Banking	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,546	$ 419	$ –	$ 428	$ 164	$ 21	$ 6,578	$ 5,105	$ 1,209	$ 264
Non-interest income	2,106	3,111	2,045	2,197	680	230	10,369	5,179	3,348	1,842
Total revenues	7,652	3,530	2,045	2,625	844	251	16,947	10,284	4,557	2,106
Provision for credit losses	554	(2)	–	189	2	(28)	715	521	106	88
Insurance policyholder benefits, claims and acquisition expense	–	–	1,404	–	–	–	1,404	543	376	485
Non-interest expense	4,642	2,911	424	1,671	595	(7)	10,236	5,822	3,504	910
Net income before income taxes	2,456	621	217	765	247	286	4,592	3,398	571	623
Income taxes	894	209	(11)	271	69	11	1,443	1,209	201	33
Non-controlling interest	8	–	–	3	–	102	113	101	7	5
Net income	$ 1,554	$ 412	$ 228	$ 491	$ 178	$ 173	$ 3,036	$ 2,088	$ 363	$ 585
Total average assets (1)	$162,400	$ 17,600	$ 8,900	$ 199,300	$ 2,000	$11,800	$402,000	$233,900	$82,200	$85,900

2002	RBC Banking	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,557	$ 371	$ –	$ 532	$ 136	$ 273	$ 6,869	$ 5,407	$ 1,106	$ 356
Non-interest income	2,090	3,276	1,910	2,142	672	101	10,191	4,791	3,643	1,757
Total revenues	7,647	3,647	1,910	2,674	808	374	17,060	10,198	4,749	2,113
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	356	394	580
Non-interest expense	4,520	3,144	399	1,627	548	6	10,244	5,748	3,668	828
Net income before income taxes	2,501	504	181	582	250	403	4,421	3,565	247	609
Income taxes	947	158	(9)	143	77	99	1,415	1,318	48	49
Non-controlling interest	8	–	–	–	–	100	108	100	2	6
Net income	$ 1,546	$ 346	$ 190	$ 439	$ 173	$ 204	$ 2,898	$ 2,147	$ 197	$ 554
Total average assets (1)	$156,500	$ 15,100	$ 7,000	$ 180,700	$ 2,400	$10,100	$371,800	$226,900	$75,800	$69,100

(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 Investments, RBC Insurance, RBC Capital Markets and RBC Global Services. The Other segment mainly comprises Corporate Treasury, Corporate Resources and Information Technology.

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 primarily recorded in the location that best reflects the risk due to negative changes in economic conditions, and prospects for growth due to positive economic changes. This location frequently corresponds with the location of the legal entity through which the business is conducted and the location of the customer. Transactions are recorded in the local residing currency and are subject to foreign exchange rate fluctuations with respect to the movement in the Canadian dollar.

During the year, we revisited our geographic reporting and reclassified certain amounts to more appropriately reflect the way management reviews these results, consistent with the above methodology. Within RBC Insurance, certain reinsurance results were reclassified from United States and Canada to Other International.

Effective November 1, 2004, we realigned our organizational structure which resulted in the identification of new segments. Refer to Note 25 for a description of the new segments.

NOTE 4 GOODWILL AND OTHER INTANGIBLES

Coincident with the completion of our annual goodwill impairment test, our business realignment, effective November 1, 2004, was announced. The results of our goodwill impairment test, which was based on a discounted cash flow model, indicate that goodwill attributable to RBC Mortgage Company (RBC Mortgage) is impaired by approximately $130 million.

The following table discloses the changes in goodwill over 2004 and 2003.

Goodwill

	RBC Banking	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Total
Balance at October 31, 2002	$ 2,229	$ 1,792	$ 187	$ 711	$ 121	$5,040
Goodwill acquired during the year	256	43	—	—	—	299
Other adjustments (1)	(347)	(258)	(18)	(84)	1	(706)
Balance at October 31, 2003	2,138	1,577	169	627	122	4,633
Goodwill acquired during the year	127	105	—	—	—	232
Goodwill impairment	(130)	—	—	—	—	(130)
Other adjustments (1)	(165)	(125)	(11)	(18)	—	(319)
Balance at October 31, 2004	$ 1,970	$ 1,557	$ 158	$ 609	$ 122	$4,416

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

The projected amortization of Other intangibles for each of the years ending October 31, 2005, to October 31, 2009, is approximately $69 million. There were no writedowns of intangible assets due to impairment during the years ended October 31, 2004 and 2003.

Other intangibles

	2004			2003		
	Gross carrying amount	Accumulated amortization (1)	Net carrying amount	Gross carrying amount	Accumulated amortization (1)	Net carrying amount
Core deposit intangibles	**$ 365**	**$ (124)**	**$ 241**	$ 381	$ (93)	$ 288
Customer lists and relationships	**342**	**(99)**	**243**	314	(71)	243
Mortgage servicing rights	**68**	**(31)**	**37**	75	(27)	48
Other intangibles	**4**	**(2)**	**2**	3	(2)	1
	$ 779	**$ (256)**	**$ 523**	$ 773	$ (193)	$ 580

(1) Total amortization expense for 2004 and 2003 are $69 million and $71 million, respectively.

NOTE 5 SECURITIES

	Term to maturity (1)							
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	2004 Total	2003 Total
Trading account								
Canadian government debt								
Federal	$ 1,230	$ 2,023	$ 2,915	$ 695	$ 812	$ —	$ 7,675	$ 9,718
Provincial and municipal	360	258	781	759	660	—	2,818	3,618
U.S. government debt								
Federal	203	21	1,066	199	246	—	1,735	4,265
State, municipal and agencies	64	—	—	—	—	—	64	—
Other OECD government debt (2)	302	481	1,500	1,051	377	—	3,711	3,575
Mortgage-backed securities	16	19	280	184	518	—	1,017	889
Asset-backed securities	230	10	122	1,598	229	—	2,189	6,348
Corporate debt and other debt								
Bankers' acceptances	526	455	17	—	—	—	998	1,674
Certificates of deposit	2,503	1,676	794	—	—	—	4,973	8,146
Other	3,052	4,228	12,164	7,879	3,259	461	31,043	22,059
Equities	—	—	—	—	—	31,412	31,412	26,427
	8,486	9,171	19,639	12,365	6,101	31,873	87,635	86,719
Available for sale								
Canadian government debt								
Federal								
Amortized cost	2,222	1,753	2,834	81	8	—	6,898	8,810
Estimated fair value	2,223	1,750	2,876	82	8	—	6,939	8,914
Yield (3)	2.9%	2.7%	4.2%	5.7%	3.1%	—	3.4%	n.a.
Provincial and municipal								
Amortized cost	153	67	328	621	841	—	2,010	1,013
Estimated fair value	153	67	332	642	924	—	2,118	1,038
Yield (3)	2.7%	5.0%	3.9%	5.1%	6.3%	—	5.2%	n.a.
U.S. government debt								
Federal								
Amortized cost	17	98	94	49	217	—	475	726
Estimated fair value	17	98	94	50	207	—	466	718
Yield (3)	1.8%	2.9%	3.0%	4.6%	5.3%	—	4.1%	n.a.
State, municipal and agencies								
Amortized cost	—	879	2,389	151	—	—	3,419	4,102
Estimated fair value	—	875	2,364	149	—	—	3,388	4,071
Yield (3)	—	1.8%	2.5%	3.5%	—	—	2.4%	n.a.
Other OECD government debt								
Amortized cost	788	901	36	—	—	—	1,725	4,775
Estimated fair value	802	901	36	—	—	—	1,739	4,781
Yield (3)	1.0%	1.2%	6.1%	—	—	—	1.2%	.1%
Mortgage-backed securities								
Amortized cost	—	48	3,242	828	1,920	—	6,038	5,512
Estimated fair value	—	49	3,262	839	1,932	—	6,082	5,543
Yield (3)	—	6.0%	4.1%	5.0%	4.5%	—	4.4%	4.5%
Asset-backed securities								
Amortized cost	158	58	241	548	387	—	1,392	329
Estimated fair value	158	58	242	551	386	—	1,395	326
Yield (3)	2.5%	4.0%	4.3%	2.7%	2.6%	—	3.0%	5.6%
Corporate debt and other debt								
Amortized cost	5,628	3,931	3,687	763	1,876	640	16,525	14,831
Estimated fair value	5,636	3,954	3,736	791	1,937	658	16,712	14,898
Yield (3)	1.8%	2.5%	2.8%	5.0%	5.7%	1.8%	2.8%	3.1%
Equities								
Cost	—	—	—	—	—	1,018	1,018	1,293
Estimated fair value	—	—	—	—	—	1,022	1,022	1,330
Amortized cost	8,966	7,735	12,851	3,041	5,249	1,658	39,500	41,391
Estimated fair value	8,989	7,752	12,942	3,104	5,394	1,680	39,861	41,619
Total carrying value of securities	$17,475	$ 16,923	$32,581	$ 15,469	$11,495	$33,553	$127,496	$128,338

(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) OECD stands for Organisation for Economic Co-operation and Development.

(3) The weighted average yield is based on the carrying value at the end of the year for the respective securities.

n.a. Due to the enhanced disclosure of Canadian government and U.S. government debt, the yields for 2003 were not reasonably determinable.

NOTE 5 SECURITIES (continued)

Unrealized gains and losses on Available for sale securities

	2004				2003			
	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	**$ 8,908**	**$ 154**	**$ (5)**	**$ 9,057**	$ 9,823	$ 135	$ (6)	$ 9,952
U.S. government debt	**3,894**	**3**	**(43)**	**3,854**	4,828	16	(55)	4,789
Other OECD government debt	**1,725**	**14**	**—**	**1,739**	4,775	6	—	4,781
Mortgage-backed securities	**6,038**	**53**	**(9)**	**6,082**	5,512	59	(28)	5,543
Asset-backed securities	**1,392**	**9**	**(6)**	**1,395**	329	5	(8)	326
Corporate debt and other debt	**16,525**	**200**	**(13)**	**16,712**	14,831	89	(22)	14,898
Equities	**1,018**	**55**	**(51)**	**1,022**	1,293	45	(8)	1,330
	$39,500	**$ 488**	**$ (127)**	**$39,861**	$41,391	$ 355	$ (127)	$41,619

Realized gains and losses on sale of Available for sale securities

	2004	2003	2002
Realized gains	**$146**	$ 87	$ 82
Realized losses and writedowns	**(64)**	(68)	(194)
Gain (loss) on sale of Available for sale securities	**$ 82**	$ 19	$(112)

Fair value and unrealized losses position for Available for sale securities as at October 31, 2004

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Canadian government debt						
Federal	**$ 2,976**	**$ 5**	**$ —**	**$ —**	**$ 2,976**	**$ 5**
U.S. government debt						
Federal	**299**	**1**	**206**	**10**	**505**	**11**
State, municipal and agencies	**2,701**	**22**	**444**	**10**	**3,145**	**32**
Mortgage-backed securities	**1,477**	**5**	**282**	**4**	**1,759**	**9**
Asset-backed securities	**618**	**2**	**28**	**4**	**646**	**6**
Corporate debt and other debt	**590**	**7**	**410**	**6**	**1,000**	**13**
Equities	**112**	**45**	**38**	**6**	**150**	**51**
Total temporarily impaired securities	**$ 8,773**	**$ 87**	**$ 1,408**	**$ 40**	**$10,181**	**$ 127**

The unrealized losses for Canadian government debt, U.S. government debt, mortgage-backed securities and asset-backed securities were caused by increases in interest rates. The contractual terms of these investments either do not permit the issuer to settle the securities at a price less than the amortized costs of the investment, or permit prepayment of contractual amounts owing only with prepayment penalties assessed to recover interest foregone. As a result, it is not expected that these investments would be settled at a price less than the amortized cost. Unrealized losses for Corporate debt and other debt were caused by either increase in interest rates or credit rating downgrades in some cases, and we do not believe that it is probable that we will be unable to collect all amounts due according to the contractual terms of the investments. We have the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity. As a result, we do not consider these investments to be other-than-temporarily impaired as at October 31, 2004.

Unrealized losses on equity securities are primarily due to the timing of the market prices, or the early years in the business cycle of the investees for certain investments. We do not consider these investments to be other-than-temporarily impaired as at October 31, 2004, as we have the ability and intent to hold them for a reasonable period of time until the recovery of fair value.

NOTE 6 LOANS (1)

	2004	2003
Canada		
Residential mortgage	**$ 80,168**	$ 73,978
Personal	**30,415**	26,445
Credit card	**6,298**	4,663
Business and government	**32,120**	28,669
	149,001	133,755
United States		
Residential mortgage	**3,227**	4,096
Personal	**5,849**	5,015
Credit card	**108**	107
Business and government	**17,210**	17,423
	26,394	26,641
Other International		
Residential mortgage	**777**	745
Personal	**584**	726
Credit card	**50**	46
Business and government	**12,348**	10,634
	13,759	12,151
Total loans (2)	**189,154**	172,547
Allowance for loan losses	**(1,644)**	(2,055)
Total loans net of allowance for loan losses	**$187,510**	$170,492

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

(2) Loans are net of unearned income of $86 million (2003 — $113 million).

Loan maturities and rate sensitivity

	Maturity term (1)				Rate sensitivity			
As at October 31, 2004	**Under 1 year**	**1 to 5 years**	**Over 5 years**	**Total**	**Floating**	**Fixed rate**	**Non-rate-sensitive**	**Total**
Residential mortgage	**$15,933**	**$63,730**	**$4,509**	**$ 84,172**	**$12,022**	**$ 72,004**	**$ 146**	**$ 84,172**
Personal	**26,810**	**8,004**	**2,034**	**36,848**	**30,176**	**6,483**	**189**	**36,848**
Credit card	**6,456**	**—**	**—**	**6,456**	**—**	**4,412**	**2,044**	**6,456**
Business and government	**50,184**	**8,399**	**3,095**	**61,678**	**28,058**	**32,696**	**924**	**61,678**
Total loans	**$99,383**	**$80,133**	**$9,638**	**189,154**	**$70,256**	**$115,595**	**$ 3,303**	**189,154**
Allowance for loan losses				**(1,644)**				**(1,644)**
Total loans net of allowance for loan losses				**$187,510**				**$187,510**

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

Non accrual loans

	2004	2003
Residential mortgage	**$ 146**	$ 131
Personal	**189**	235
Business and government	**217**	296
	552	662
Individually impaired business and government	**707**	1,083
	$1,259	$1,745
Allowance for individually impaired loans	**$ 256**	$ 479
Average balance of individually impaired loans (1)	**$ 962**	$1,388

(1) For the year ended October 31, 2002, the average balance of individually impaired loans was $1,607 million.

Allowance for loan losses

	2004	2003	2002
Allowance for credit losses at beginning of year	**$2,164**	$2,314	$ 2,392
Charge-offs	**(998)**	(976)	(1,457)
Recoveries	**212**	170	198
Net charge-offs	**(786)**	(806)	(1,259)
Provision for credit losses	**347**	715	1,065
Adjustments	**(11)**	(59)	116
Allowance for credit losses at end of year	**1,714**	2,164	2,314
Allowance for off-balance sheet and other items (1)	**(70)**	(109)	(109)
Allowance for tax-exempt securities (1)	**—**	—	(2)
Allowance for loan losses at end of year	**$1,644**	$2,055	$ 2,203

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

NOTE 7 SECURITIZATIONS

The following table summarizes our new securitization activity for 2004, 2003 and 2002:

New securitization activity

	2004			2003			2002		
	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	**$ –**	**$ 3,074**	**$ 486**	$ 1,000	$ 610	$ 131	$ –	$ 1,708	$ –
Net cash proceeds received	**–**	**3,035**	**497**	1,000	607	135	–	1,691	–
Retained rights to future excess interest	**–**	**75**	**–**	9	24	–	–	71	–
Pre-tax gain on sale	**–**	**36**	**11**	9	21	4	–	54	–

(1) Government guaranteed residential mortgage loans securitized during the year through the creation of mortgage-backed securities and retained were $1,903 million (2003 – $3,473 million; 2002 – $2,026 million). Retained mortgage-backed securities are classified as Available for sale.

Key assumptions (1)

	2004 (2)	2003		2002 (2)
	Residential mortgage loans	Credit card loans	Residential mortgage loans	Residential mortgage loans
Payment rate	**12.00%**	37.69%	12.00%	12.00%
Excess spread, net of credit losses	**.74**	5.74	1.17	1.20
Expected credit losses	**–**	1.64	–	–
Discount rate	**3.83**	10.00	4.11	4.75

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

(2) There were no credit card loan securitizations in 2004 and 2002.

The following table summarizes the loan principal, past due and net charge-offs for total loans reported on our Consolidated balance sheet and securitized loans that we manage as at October 31, 2004 and 2003:

Loans managed

	2004			2003		
	Loan principal	Past due (1)	Net charge-offs	Loan principal	Past due(1)	Net charge-offs
Residential mortgage	**$ 93,223**	**$ 245**	**$ 7**	$ 85,031	$ 233	$ 10
Personal	**36,848**	**233**	**257**	32,186	287	305
Credit card	**8,356**	**54**	**204**	7,491	46	184
Business and government	**61,678**	**946**	**354**	56,726	1,401	336
Total loans managed (2)	**200,105**	**1,478**	**822**	181,434	1,967	835
Less: Loans securitized and managed (3)	**10,951**	**–**	**36**	8,887	–	29
Total loans reported on the Consolidated balance sheet	**$ 189,154**	**$ 1,478**	**$ 786**	$ 172,547	$ 1,967	$ 806

(1) Includes nonaccrual loans as well as loans 90 days past due not yet classified as non accrual.

(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 $1,900 million (2003– $2,675 million), mortgage-backed securities created and sold of $5,983 million (2003 – $2,936 million), mortgage-backed securities created and retained of $3,068 million (2003 – $3,276 million).

At October 31, 2004, 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 on the next page.

These sensitivities are hypothetical and should be used with caution. 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 on the next page summarizes certain cash flows received from securitizations in 2004, 2003 and 2002.

Sensitivity of key assumptions to adverse changes (1)

	Impact on fair value	
	Credit card loans	Residential mortgage loans
Fair value of retained interests	$ 13.3	$ 130.5
Weighted average remaining service life (in years)	.2	2.1
Payment rate	43.21%	12.00%
Impact on fair value of 10% adverse change	$ (.8)	$ (2.6)
Impact on fair value of 20% adverse change	(1.7)	(5.1)
Excess spread, net of credit losses	6.67%	.93%
Impact on fair value of 10% adverse change	$ (1.3)	$ (13.1)
Impact on fair value of 20% adverse change	(2.6)	(26.1)
Expected credit losses	1.53%	–
Impact on fair value of 10% adverse change	$ (.4)	–
Impact on fair value of 20% adverse change	(.9)	–
Discount rate	10.00%	3.41%
Impact on fair value of 10% adverse change	$ –	$ (.4)
Impact on fair value of 20% adverse change	–	(.9)

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

Cash flows from securitizations

	2004		2003		2002	
	Credit card loans	Residential mortgage loans	Credit card loans	Residential mortgage loans	Credit card loans	Residential mortgage loans
Proceeds reinvested in revolving securitizations	**$ 10,028**	**$ 1,202**	$ 7,843	$ 1,268	$ 8,512	$ 303
Cash flows from retained interests in securitizations	**84**	**46**	64	13	64	15

NOTE 8 VARIABLE INTEREST ENTITIES

The Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R), defines a variable interest entity (VIE) as an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. FIN 46R requires the Primary Beneficiary to consolidate a VIE and defines the Primary Beneficiary as the entity that is exposed to a majority of the VIE's expected losses (as defined in FIN 46R) or entitled to a majority of the VIE's expected residual returns (as defined in FIN 46R) or both. In addition, FIN 46R prescribes certain disclosures for VIEs that are not consolidated but in which we have a significant variable interest.

The following table provides information about VIEs that we have consolidated or in which we have a significant variable interest:

	Total assets as at October 31, 2004	Maximum exposure to loss as at October 31, 2004
VIEs in which we have a significant variable interest (1):		
Multi-seller conduits we administer (2)	**$ 25,608**	**$ 25,443**
Third-party conduits	**3,994**	**1,133**
Structured finance VIEs	**2,079**	**1,436**
Investment funds	**2,192**	**508**
CDOs	**999**	**12**
Other	**510**	**77**
Consolidated VIEs (3):		
Structured finance VIEs	**$ 1,406**	
Investment funds	**713**	
Repackaging VIEs	**673**	
Compensation vehicles	**206**	
Other	**299**	

(1) The maximum exposure to loss resulting from our significant variable interest in these variable interest entities (VIEs) consists mostly of investments, loans, liquidity facilities and fair value of derivatives with them.

(2) Total assets represents maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31,2004. Actual assets held by these conduits as at October 31,2004, were $18,529 million.

(3) The assets that support the obligations of the consolidated VIEs are reported on our Consolidated balance sheet primarily as follows: Interest-bearing deposits with banks of $94 million, Trading account securities of $1,330 million, Available for sale securities of $405 million, Business and government loans of $924 million and Other assets of $338 million. The compensation vehicles of $206 million hold our common shares, which are reported as Treasury stock. The obligation to provide common shares to employees is recorded as an increase to Additional paid-in capital as the expense for the corresponding stock-based compensation plan is recognized.

NOTE 8 VARIABLE INTEREST ENTITIES (continued)

Multi-seller conduits

We administer multi-seller asset-backed commercial paper conduit programs (multi-seller conduits), which purchase financial assets from our clients 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 restructured certain multi-seller conduits with commitments to purchase assets of $18,661 million in the first quarter of 2004 and, therefore, we were not required to consolidate them when we initially adopted FIN 46R. In the last quarter of 2004, we completed the restructuring of the remaining multi-seller conduits with commitments to purchase assets of $6,947 million and, thus, no longer consolidate these multi-seller conduits as at October 31, 2004. There was no net income impact from consolidation of these multi-seller conduits during the year; however, revenues and expenses each increased by $35 million. As part of the restructurings, an unrelated third party (the "expected loss investor") agreed to absorb credit losses (up to a maximum contractual amount) that may occur in the future on the assets in the multi-seller conduits (the "multi-seller conduit first-loss position") before us and the multi-seller conduit's debt holders. In return for assuming this multi-seller conduit first-loss position, each multi-seller conduit pays the expected loss investor a return commensurate with its risk position. The expected loss investor absorbs a majority of each multi-seller conduit's expected losses when compared to us; therefore, we are not the Primary Beneficiary and are not required to consolidate these conduits under FIN 46R. However, we continue to hold a significant variable interest in these multi-seller conduits resulting from our provision of backstop liquidity facilities and partial credit enhancement and our entitlement to residual fees. The liquidity and credit enhancement facilities are also included and described in our disclosure on guarantees in Note 21.

Collateralized Debt Obligations

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. As part of this role, we are required to invest in a portion of the CDO's first-loss tranche, which represents our exposure to loss. In most cases, our share of the first-loss tranche and the fees we earn as collateral manager do not expose us to a majority of the expected losses and we are therefore not the Primary Beneficiary of these CDOs. For this reason, we deconsolidated a previously consolidated CDO with assets of $361 million upon adoption of FIN 46R.

Repackaging VIEs

We use repackaging VIEs, which generally transform credit derivatives into cash instruments, to distribute credit risk and create unique credit products to meet investors' specific requirements. We 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 VIEs as collateral for notes issued that do not meet sale recognition criteria under FASB Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140). We sometimes invest in the notes issued by these VIEs, which causes us to be the Primary Beneficiary requiring consolidation.

Structured finance VIEs

We finance VIEs that are part of transactions structured to achieve a desired outcome such as limiting exposure to specific assets, supporting an enhanced yield and meeting client requirements. Sometimes our interest in such a VIE exposes us to a majority of its expected losses, resulting in consolidation.

Investment funds

We facilitate development of investment products by third parties including mutual funds, unit investment trusts and other investment funds that are sold to retail investors. We enter into derivatives with these funds to provide the investors their desired exposure and hedge our exposure from these derivatives by investing in other funds. We are the Primary Beneficiary where our participation in the derivative or our investment in other funds exposes us to a majority of their respective expected losses.

Capital trusts

We continue to not consolidate RBC Capital Trust II, which was created in 2003 to issue Innovative Tier 1 capital of $900 million. We issued a senior deposit note of the same amount to this trust. Although we own the common equity and voting control of the trust, we are not deemed to be the Primary Beneficiary as we are not exposed to the majority of the expected losses. We deconsolidated certain other capital trusts of approximately $150 million upon adoption of FIN 46R for similar reasons.

Securitization of our financial assets

We employ special purpose entities (SPEs) in the process of securitizing our assets, none of which has been consolidated at October 31, 2004, under FIN 46R. One entity is a qualifying SPE under FAS 140, which is specifically exempt from consolidation under FIN 46R, and our level of participation in each of the remaining SPEs relative to others does not expose us to a majority of the expected losses. For details on our securitization activities please refer to Note 7.

Mutual funds and assets administered in trust

Under FIN 46, we had originally concluded that we would be the Primary Beneficiary of entities that experience low volatility of returns on their assets. Since FIN 46R has removed the provision in FIN 46 which required a comparison of gross fees earned by us with the variability in returns to which investors or beneficiaries are exposed, we no longer consider ourselves the Primary Beneficiary of these entities nor do we consider our fee variability to be significant relative to the investors or beneficiaries.

We continue to monitor developments, including additional interpretive guidance issued by standard setters, which affect our interpretation of FIN 46R.

NOTE 9 PREMISES AND EQUIPMENT

	2004		2003	
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 149	$ —	$ 149	$ 154
Buildings	608	304	304	331
Computer equipment	1,958	1,353	605	536
Furniture, fixtures and other equipment	1,068	716	352	280
Leasehold improvements	905	584	321	354
	$4,688	$ 2,957	$ 1,731	$ 1,655

The depreciation expense for premises and equipment amounted to $384 million, $380 million and $388 million in 2004, 2003 and 2002, respectively.

NOTE 10 OTHER ASSETS

	2004	2003
Receivable from brokers, dealers and clients	$14,906	$ 2,568
Non-cash collateral that can be sold or repledged	7,363	3,877
Investment in associated corporations	1,653	1,511
Accrued interest receivable	1,406	1,288
Insurance-related assets (1)	1,405	1,190
Net deferred income tax asset	679	883
Prepaid pension benefit cost (2)	571	138
Other	5,081	7,042
	$33,064	$18,497

(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 11 DEPOSITS

				2004	2003
	Demand (1)	Notice (2)	Term (3)	Total	Total
Personal	$ 12,731	$34,054	$ 66,224	$113,009	$106,709
Business and government	44,706	9,329	77,515	131,550	129,936
Bank (4)	2,493	57	24,466	27,016	23,873
	$ 59,930	$43,440	$168,205	$271,575	$260,518
Non-interest-bearing					
Canada				$ 28,273	$ 24,388
United States				2,284	2,076
Other International				885	1,107
Interest-bearing					
Canada (4)				141,177	130,135
United States				33,621	36,361
Other International				65,335	66,451
				$271,575	$260,518

(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 primarily 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, 2004, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $13.4 billion (2003 – $11.9 billion) and other notes and similar instruments in bearer form we have issued of $27.3 billion (2003 – $27.3 billion).

(4) Includes a $900 million senior deposit note issued to RBC Capital Trust II (described in Note 14), 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 12 OTHER LIABILITIES

	2004	2003
Payable to brokers, dealers and clients	**$13,576**	$ 3,241
Short-term borrowings of subsidiaries	**11,180**	7,842
Non-cash collateral that can be sold or repledged	**7,363**	3,877
Accrued interest payable	**1,312**	1,387
Accrued pension and other postretirement benefit expense (1)	**930**	1,092
Insurance-related liabilities	**543**	342
Dividends payable	**347**	313
Other	**8,389**	8,105
	$43,640	$26,199

(1) Accrued pension and other postretirement benefit expense represents the cumulative excess of pension and other postretirement benefit expense over pension fund contributions.

NOTE 13 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	2004	2003
March 15, 2009			6.50%		US$ 125	**$ 152**	$ 165
April 12, 2009		(1)	5.40%			**—**	350
June 11, 2009		(2)	5.10%			**—**	350
July 7, 2009		(3)	6.05%			**—**	175
October 12, 2009		(4)	6.00%			**—**	150
August 15, 2010	August 15, 2005	(5)	6.40%	(6)		**688**	700
February 13, 2011	February 13, 2006	(7)	5.50%	(6)		**122**	125
April 26, 2011	April 26, 2006	(8)	8.20%	(6)		**77**	100
September 12, 2011	September 12, 2006	(5)	6.50%	(6)		**349**	350
October 24, 2011	October 24, 2006	(9)	6.75%	(10)	US$ 300	**350**	396
November 8, 2011	November 8, 2006	(11)		(12)	US$ 400	**488**	526
June 4, 2012	June 4, 2007	(5)	6.75%	(6)		**500**	500
January 22, 2013	January 22, 2008	(13)	6.10%	(6)		**497**	500
January 27, 2014	January 27, 2009	(7)	3.96%	(6)		**500**	—
June 1, 2014	June 1, 2009	(14)	4.18%	(6)		**1,000**	—
November 14, 2014			10.00%			**200**	200
January 25, 2015	January 25, 2010	(15)	7.10%	(6)		**498**	500
April 12, 2016	April 12, 2011	(16)	6.30%	(6)		**382**	400
November 4, 2018	November 4, 2013	(17)	5.45%	(6)		**1,000**	—
June 8, 2023			9.30%			**110**	110
October 1, 2083		(18)		(19)		**250**	250
June 6, 2085		(18)		(20)	US$ 300	**365**	396
June 18, 2103	June 18, 2009	(21)	5.95%	(22)		**588**	—
						8,116	6,243
Fair value adjustment (23)						**406**	338
						$8,522	$6,581

(1) Redeemed on April 12, 2004, at par value.

(2) Redeemed on June 11, 2004, at par value.

(3) Redeemed on July 7, 2004, at par value.

(4) Redeemed on October 12, 2004, 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 5 basis points and (ii) par value, and thereafter at any time at par value.

(6) 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.

(7) 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.

(8) 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.

(9) 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.

(10) 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.

(11) Redeemable on the earliest par value redemption date at par value.

(12) 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.

(13) 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.

(14) 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 9 basis points and (ii) par value, and thereafter at any time at par value.

(15) 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.

(16) 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.

(17) 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 14 basis points and (ii) par value, and thereafter at any time at par value.

(18) Redeemable on any interest payment date at par value.

(19) Interest at a rate of 40 basis points above the 30-day Bankers' Acceptance rate.

(20) 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.

(21) Redeemable on June 18, 2009, or every fifth anniversary of such date at par value. Redeemable on any other date at the greater of par and the yield on a non-callable Government of Canada bond plus .21% if redeemed prior to June 18, 2014, or .43% if redeemed at any time after June 18, 2014.

(22) Interest at a rate of 5.95% until earliest par value redemption date and every 5 years thereafter at the 5-year Government of Canada yield plus 1.72%.

(23) The fair value adjustment reflects the adjustment to the carrying value of hedged subordinated debentures in fair value hedging relationships. The subordinated debentures specifically hedged have maturity dates ranging from August 15, 2010, to June 18, 2103.

Maturity schedule

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

At October 31, 2004	Total
1 to 5 years	$ 152
5 to 10 years	4,710
Thereafter	3,660
Total	$8,522

NOTE 14 NON-CONTROLLING INTEREST IN SUBSIDIARIES

	2004	2003
Trust Capital Securities issued by RBC Capital Trust (1)	**$1,434**	$1,434
Other	**90**	40
	$1,524	$1,474

(1) Including accrued distribution amounts.

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. RBC Capital Trust II (Trust II), an open-end trust, is another entity that issues 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 46R. 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 11). 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, 2004, 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 holdings for 40 non-cumulative redeemable First Preferred Shares Series U, for each RBC TruCS Series 2013 held.

(4) The RBC TruCS Series 2010 and 2011 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. The RBC TruCS Series 2013 may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs prior to December 31, 2013 or (ii) the Redemption Price if the redemption occurs on or after December 31, 2013. 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 15 SHARE CAPITAL

Authorized share capital

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 shares

	2004			2003			2002		
	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
US$ Non-cumulative Series I (1)	**—**	**—**	**—**	—	—	—	—	—	US .02
Non-cumulative Series J (1)	**—**	**—**	**—**	—	—	.90	12,000	294	1.78
US$ Non-cumulative Series K (1)	**—**	**—**	**—**	—	—	US .80	10,000	384	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	128	US 1.44	4,000	152	US 1.44
Non-cumulative Series S	**10,000**	**247**	**1.53**	10,000	247	1.53	10,000	247	1.53
		$ 813			$ 813			$1,515	
Common									
Balance at beginning of year	**656,021**	**$6,999**		665,257	$6,963		674,021	$6,926	
Issued under the stock option plan (2)	**3,328**	**124**		5,303	190		5,211	175	
Issued on the acquisition of Richardson Greenshields Limited (3)	**—**	**—**		—	—		318	15	
Issuance costs, net of related income taxes	**—**	**—**		—	—		—	(1)	
Purchased for cancellation	**(14,601)**	**(157)**		(14,539)	(154)		(14,293)	(152)	
Balance at end of year	**644,748**	**$6,966**	**$ 2.02**	656,021	$6,999	$ 1.72	665,257	$6,963	$ 1.52
Treasury									
Reclassified amounts	**4,950**	**$ (304)**		—	—		—	—	
Net purchases	**85**	**(2)**		—	—		—	—	
Initial adoption of FIN 46R, *Consolidation of Variable Interest Entities*	**780**	**(42)**		—	—		—	—	
Balance at end of year	**5,815**	**$ (348)**	**—**	—	—	—	—	—	—

(1) On May 26, 2003, we redeemed First Preferred Shares Series J and K. On October 11, 2002, we redeemed First Preferred Shares Series I and E, respectively.

(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 (2003 – $3 million); and from renounced tandem SARs, net of related income taxes, of $2 million (2003 – $4 million).

(3) During 2002, we exchanged 1,846,897 Class C shares issued by our wholly owned subsidiary, Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited for 318,154 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)	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 C$26 and US$26, respectively, 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 C$25 and US$25, respectively, 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.

We have also agreed that if, on any day we report financial results for a fiscal quarter, (a) we report a cumulative consolidated net loss for the immediately preceding four quarters; and (b) during the immediately preceding fiscal quarter we fail to declare any cash dividends on all of our outstanding preferred and common shares, we may defer payments of interest on the Series 2014-1 Reset Subordinated Notes (matures on June 18, 2103). During any period while interest is being deferred, (i) interest will accrue on these notes but will not compound; (ii) we may not declare or pay dividends (except by way of stock dividend) on, or redeem or repurchase, any of its preferred or common shares; and (iii) we may not make any payment of interest, principal or premium on any debt securities or indebtedness for borrowed money issued or incurred by us that rank subordinate to these notes.

Normal course issuer bid

Details of common shares repurchased under normal course issuer bids during 2004, 2003 and 2002 are given below.

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, 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, 2004, our Tier 1 and Total capital ratios were 8.9% and 12.4%, respectively (2003 –9.7% and 12.8%, respectively).

In the evaluation of our assets-to-capital multiple, OSFI specifies that total assets, including specified off-balance sheet financial instruments, should be no greater than 23 times Total capital. At October 31, 2004, our assets-to-capital multiple was 18.1 times (2003 – 18.2 times).

Dividend reinvestment plan

We announced on August 27, 2004, the implementation of a dividend reinvestment plan for registered common shareholders. The plan provides registered common shareholders with a means to automatically reinvest the cash dividends paid on their common shares in the purchase of additional common shares. The plan is only open to shareholders residing in Canada or the United States.

The first dividend eligible for the plan was paid November 24, 2004, to shareholders of record on October 26, 2004. Management has the flexibility to fund the plan through open market share purchases or treasury issuances.

		2004			2003			2002	
	Number of shares eligible for repurchase (000s)	Number of shares repurchased (000s)	Average cost per share	Amount	Number of shares repurchased (000s)	Average cost per share	Amount	Number of shares repurchased (000s)	Average cost per share	Amount
June 24, 2004 – June 23, 2005	**25,000**	**6,412**	**$ 60.56**	**$ 388**	—	$ —	$ —	—	$ —	$ —
June 24, 2003 – June 23, 2004	**25,000**	**8,189**	**61.54**	**504**	5,910	59.30	350	—	—	—
June 24, 2002 – June 23, 2003	**20,000**	**—**	**—**	**—**	8,629	58.09	502	9,819	52.27	513
June 22, 2001 – June 21, 2002	**18,000**	**—**	**—**	**—**	—	—	—	4,474	56.02	251
		14,601	**$ 61.11**	**$ 892**	14,539	$ 58.58	$ 852	14,293	$ 53.45	$ 764

NOTE 16 INCOME TAXES

	2004	2003	2002
Income taxes in Consolidated statement of income			
Current			
Canada – Federal	**$ 639**	$ 726	$ 681
Provincial	**329**	317	265
International	**155**	319	153
	1,123	1,362	1,099
Deferred			
Canada – Federal	**3**	88	205
Provincial	**8**	34	70
International	**60**	(41)	41
	71	81	316
	1,194	1,443	1,415
Income taxes (recoveries) in Consolidated statement of changes in shareholders' equity			
Unrealized gains and losses on available for sale securities, net of hedging activities	**42**	(71)	(13)
Unrealized foreign currency translation gains and losses, net of hedging activities	**328**	1,064	100
Gains and losses on derivatives designated as cash flow hedges	**(21)**	13	39
Additional pension obligation	**245**	(113)	(155)
Issuance costs	**—**	(3)	—
Stock appreciation rights	**3**	5	22
	597	895	(7)
Total income taxes	**$1,791**	$2,338	$1,408

Deferred income taxes

	2004	2003
Deferred income tax asset (1)		
Allowance for credit losses	**$ 464**	$ 505
Deferred compensation	**310**	338
Pension related	**135**	292
Business realignment charges	**60**	—
Tax loss carryforwards	**29**	35
Deferred income	**176**	166
Other	**361**	299
	1,535	1,635
Valuation allowance	**(12)**	(16)
	1,523	1,619
Deferred income tax liability		
Premises and equipment	**(192)**	(14)
Deferred expense	**(226)**	(289)
Other	**(426)**	(433)
	(844)	(736)
Net deferred income tax asset	**$ 679**	$ 883

(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

	2004		2003		2002	
Income taxes reported in Consolidated statement of income/effective tax rate						
Income taxes at Canadian statutory tax rate	**$1,453**	**35.0%**	$1,672	36.4%	$1,702	38.5%
Increase (decrease) in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	**(224)**	**(5.4)**	(179)	(3.9)	(244)	(5.5)
Tax-exempt income from securities	**(54)**	**(1.3)**	(44)	(1.0)	(39)	(.9)
Goodwill impairment	**46**	**1.1**	—	—	—	—
Tax rate change	**(10)**	**(.2)**	31	.7	33	.7
Other	**(17)**	**(.4)**	(37)	(.8)	(37)	(.8)

$1,194	**28.8%**	$1,443	31.4%	$1,415	32.0%

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 $714 million as at October 31, 2004 (2003 – $728 million; 2002 – $841 million).

NOTE 17 INSURANCE OPERATIONS

Insurance claims and policy benefit liabilities

	2004	2003
Claims liabilities	**$ 444**	$ 665
Future policy benefits liabilities	**8,908**	7,965
Insurance claims and policy benefit liabilities	**$9,352**	$8,630

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.

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

	2004	2003	2002
Gross premiums	**$2,235**	$2,562	$2,065
Ceded premiums	**(564)**	(986)	(501)
Net premiums	**$1,671**	$1,576	$1,564

Reinsurance recoverables include amounts related to paid benefits, unpaid claims, future policy benefits and certain policyholder contract deposits.

Reinsurance recoverables

	2004	2003
Claims paid	**$ 90**	$ 356
Future policy benefits	**1,611**	2,965
Reinsurance recoverables	**$1,701**	$3,321

NOTE 18 PENSIONS AND OTHER POSTRETIREMENT BENEFITS

We offer a number of defined benefit and defined contribution plans, which provide pension and postretirement benefits to eligible employees.

Components of the change in our plan assets, weighted average asset allocations by category and benefit obligations year over year are as follows:

Plan assets, benefit obligation and funded status

	Pension plans (1)		Other postretirement plans (2)	
	2004	2003	2004	2003
Change in fair value of plan assets (3)				
Opening fair value of plan assets	**$4,657**	$3,747	**$ —**	$ —
Actual return on plan assets	**475**	415	**—**	—
Company contributions	**221**	670	**27**	27
Plan participant contributions	**24**	23	**2**	1
Benefits paid	**(284)**	(263)	**(29)**	(28)
Business acquisitions	**—**	97	**—**	—
Change in foreign currency exchange rate	**(26)**	(32)	**—**	—
Closing fair value of plan assets	**$5,067**	$4,657	**$ —**	$ —
Change in benefit obligation				
Opening benefit obligation	**$5,282**	$4,590	**$ 1,379**	$ 1,067
Service cost	**136**	120	**48**	39
Interest cost	**330**	306	**91**	80
Plan participant contributions	**24**	23	**2**	1
Actuarial loss (gain)	**34**	443	**(61)**	214
Benefits paid	**(284)**	(263)	**(29)**	(28)
Plan amendments and curtailments	**20**	—	**—**	1
Business acquisitions	**—**	123	**—**	18
Change in foreign currency exchange rate	**(39)**	(60)	**(11)**	(13)
Closing benefit obligation	**$5,503**	$5,282	**$ 1,419**	$ 1,379
Funded status				
Excess of benefit obligation over plan assets	**$ (436)**	$ (625)	**$ (1,419)**	$ (1,379)
Unrecognized net actuarial loss	**855**	1,071	**455**	549
Unrecognized transition (asset) obligation	**(17)**	(19)	**157**	174
Unrecognized prior service cost	**168**	181	**12**	13
Contributions between September 30 and October 31	**1**	25	**2**	2
Other	**—**	(1)	**—**	—
Prepaid asset (accrued liability) as at October 31	**$ 571**	$ 632	**$ (793)**	$ (641)
Amounts recognized in the Consolidated balance sheet consist of:				
Prepaid pension benefit cost	**$ 571**	$ 138	**$ —**	$ —
Accrued pension benefit expense	**(137)**	(451)	**(793)**	(641)
Intangible asset	**35**	175	**—**	—
Accumulated other comprehensive income (before taxes)	**102**	770	**—**	—
Net amount recognized as at October 31	**$ 571**	$ 632	**$ (793)**	$ (641)
Accumulated benefit obligation (1)	**$5,036**	$5,038	**n.a.**	n.a.
Weighted average assumptions to calculate benefit obligation				
Discount rate	**6.25%**	6.25%	**6.50%**	6.50%
Rate of increase in future compensation	**4.40%**	4.40%	**4.40%**	4.40%

Asset category

	Actual		Asset mix policy ranges	
	2004	2003	Target	Range
Equity securities	**59**%	59%	60%	+/–10%
Debt securities	**41**	41	40	+/–10%
Total	**100**%	100%	100%	

(1) For pension plans with projected benefit obligations that were more than plan assets, the benefit obligation and fair value of plan assets for all these plans totalled $4,953 million (2003 –$4,991 million) and $4,437 million (2003 – $4,328 million), respectively. For all plans where the accumulated benefit obligation exceeds the value of the plan assets, the accumulated benefit obligation and the value of the assets were $790 million (2003 – $4,543 million) and $657 million (2003 – $4,067 million), respectively.

(2) Includes postretirement health, dental and life insurance. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the postretirement health and life plans were 8% for medical and 5% for dental, decreasing to an ultimate rate of 4% in 2013.

(3) Plan assets includes 680,400 (2003 – 525,342) Royal Bank of Canada common shares having a fair value of $41 million (2003 – $31 million). In addition, dividends amounting to $1.4 million (2003 – $1.1 million) were received on Royal Bank of Canada common shares held in the plan assets during the year.

Note: The measurement date used for financial reporting purposes of the pension plan assets and benefit obligation is September 30.

Overall expected long-term rate of return on assets assumption

The assumed expected rate of return on assets is determined by considering long-term expected returns on risk-free investments (primarily government bonds) and a reasonable assumption for an equity risk premium. The expected long-term return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on asset assumption for the portfolio. This resulted in the selection of an assumed expected rate of return of 7% for 2002 to 2005.

Investment policies and strategies

The Pension Plan Management Committee oversees the investment of plan assets. Pension assets are invested prudently over the long term in order to meet pension obligations, at a reasonable cost. The asset mix policy takes into consideration a number of factors including:

1. Investment characteristics including expected return, volatilities, and correlations of both plan assets and plan liabilities.

2. The plan's tolerance for risk, which dictates the trade-off between increased short-term volatility and enhanced long-term expected returns.

3. Diversification of plan assets, through the inclusion of several asset classes, to minimize the risk of large losses, unless it is clearly prudent not to do so.

4. The liquidity and current return of the portfolio relative to the anticipated cash flow requirements of the plan.

5. Actuarial factors such as membership demographics and future salary growth rates.

Pension benefit expense

	2004	2003	2002
Service cost	**$ 136**	$ 120	$ 113
Interest cost	**330**	306	297
Expected return on plan assets	**(315)**	(300)	(300)
Amortization of transition asset	**(2)**	(2)	(2)
Amortization of prior service cost	**32**	31	32
Amortization of actuarial loss (gain)	**84**	15	(27)
Settlement loss	**—**	—	52
Other	**—**	—	(45)
Defined benefit pension expense	**265**	170	120
Defined contribution pension expense	**64**	67	61
Pension benefit expense	**$ 329**	$ 237	$ 181
Weighted average assumptions to calculate pension benefit expense			
Discount rate	**6.25%**	6.75%	7.00%
Assumed long-term rate of return on plan assets	**7.00%**	7.00%	7.00%
Rate of increase in future compensation	**4.40%**	4.40%	4.40%

Other postretirement benefit expense

	2004	2003	2002
Service cost	**$ 48**	$ 39	$ 22
Interest cost	**91**	80	51
Amortization of transition obligation	**17**	17	17
Amortization of actuarial loss (gain)	**32**	24	—
Amortization of prior service cost	**1**	1	2
Other postretirement benefit expense	**$ 189**	$ 161	$ 92
Weighted average assumptions to calculate other postretirement benefit expense			
Discount rate	**6.50%**	7.00%	7.25%
Rate of increase in future compensation	**4.40%**	4.40%	4.40%

2004 sensitivity of key assumptions

Pensions	**Change in obligation**	**Change in expense**
Impact of .25% change in discount rate assumption	**$ 181**	**$ 22**
Impact of ..25% change in rate of increase in future compensation assumption	**23**	**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	**$ 67**	**$ 8**
Impact of ..25% change in rate of increase in future compensation assumption	**2**	**—**
Impact of 1.00% increase in health care cost trend rates	**247**	**30**
Impact of 1.00% decrease in health care cost trend rates	**(194)**	**(28)**

Benefit payments projection

	Pension plans	Other postretirement plans
2005	282	35
2006	292	38
2007	303	43
2008	314	47
2009	326	53
2010–2014	1,835	396

Note: Total contributions for the defined benefit pension plans and other postretirement benefit plans are expected to be approximately $169 million and $35 million, respectively, for 2005.

NOTE 19 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 discontinued on a permanent basis all further grants of options under the non-employee 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 $6 million for the year ended October 31, 2004 (2003 – $18 million; 2002 – $27 million).

NOTE 19 STOCK-BASED COMPENSATION (continued)

Stock options

	2004		2003		2002	
	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	**24,803**	**$ 42.06**	28,479	$ 39.54	30,158	$ 36.84
Granted	**1,189**	**62.63**	1,985	58.03	4,215	49.12
Exercised – Common shares	**(3,328)**	**35.94**	(5,303)	34.48	(5,211)	32.07
– SARs	**(176)**	**41.35**	(170)	37.35	(291)	34.01
Cancelled	**(116)**	**47.86**	(188)	47.55	(392)	38.37
Outstanding at end of year	**22,372**	**$ 44.04**	24,803	$ 42.06	28,479	$ 39.54
Exercisable at end of year	**16,401**	**$ 40.43**	15,415	$ 38.24	14,050	$ 36.07
Available for grant	**13,215**		14,309		16,105	

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–$15.68	**117**	**$ 15.68**	**2.0**	**117**	**$ 15.68**
$24.80–$28.25	**1,183**	**26.27**	**5.1**	**1,183**	**26.27**
$30.00–$39.64	**9,279**	**36.61**	**5.2**	**9,279**	**36.61**
$43.59–$49.36	**8,671**	**49.14**	**7.4**	**5,323**	**49.13**
$50.00–$59.35	**1,939**	**57.96**	**9.0**	**492**	**57.90**
$60.00–$62.63	**1,183**	**62.63**	**10.0**	**7**	**62.63**
Total	**22,372**	**$ 44.04**	**6.6**	**16,401**	**$ 40.43**

Fair value method

Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (FAS 123), 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, Accounting Principles Board Opinions No. 25, *Accounting for Stock Issued to Employees* (APB 25), 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 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, 2004, in respect of these plans was $9 million (2003 – $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 2004, 2003 and 2002 for awards granted before 2003 as indicated below:

Pro forma net income and earnings per share

	As reported (1)			Pro forma (2)		
	2004	2003	2002	2004	2003	2002
Net income	**$2,839**	$3,036	$2,898	$2,809	**$2,990**	$2,856
Earnings per share	**4.31**	4.47	4.16	4.27	**4.40**	4.09
Diluted earnings per share	**4.25**	4.42	4.12	4.21	**4.35**	4.06

(1) Basic and diluted earnings per share for 2003 have been restated to reflect a reduction of one cent per share as a result of adopting EITF 03-6 during 2004. See Note 1 for details.

(2) Compensation expense under the fair value 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 2004 was estimated on the date of grant using an option pricing model with the following assumptions:

(i) risk-free interest rate of 4.22% (2003 – 4.61%; 2002 – 4.89%),

(ii) expected option life of six years (2003 – six years; 2002 – six years),

(iii) expected volatility of 18% (2003 – 20%; 2002 – 20%) and

(iv) expected dividends of 2.90% (2003 – 2.95%; 2002 – 2.90%). The fair value of each option granted was $10.93 (2003 – $11.60; 2002 – $10.02).

Employee share ownership plans

We offer many employees an opportunity to own our shares 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 $54 million (2003 – $55 million; 2002 – $49 million), under the terms of these plans, towards the purchase of common shares. As at October 31, 2004, an aggregate of 17,905,473 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, 2004, was $111 million (2003 – $105 million; 2002 – $73 million). The share appreciation and dividend-related compensation expense recorded for the year ended October 31, 2004, in respect of these plans was $4 million (2003 – $16 million; 2002 – $16 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 three following 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, 2004, was $241 million (2003 – $215 million; 2002 – $187 million). The share appreciation and dividend-related compensation expense for the year ended October 31, 2004, in respect of this plan was $4 million (2003 –$22 million; 2002 – $20 million).

We offer deferred share plans to certain key employees within RBC Investments with various vesting periods up to a maximum of five years. Awards under some of these plans may be deferred in the form of common shares, which are held in trust, or DSUs. The participant is not allowed to convert the DSU until retirement, permanent disability or termination of employment. The cash value of DSUs is equivalent to the market value of common shares when conversion takes place. Certain plans award share units that track the value of common shares with payout in cash at the end of a maximum five-year term. The value of deferred shares held in trust as at October 31, 2004, was $59 million (2003 – $58 million; 2002 – $34 million). The value of the various share units as at October 31, 2004, was $20 million (2003 – $26 million; 2002 – $10 million). The stock-based compensation expense recorded for the year ended October 31, 2004, in respect of these plans, was $14 million (2003 – $30 million; 2002 – $32 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 20 North American financial institutions. The value of common shares held as at October 31, 2004, was $195 million (2003 – $102 million; 2002 – $34 million). Compensation expense of $70 million (2003 – $33 million; 2002 – $11 million) was recognized for the year ended October 31, 2004, 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. No awards have been made under this program since 2001. The value of the share units as at October 31, 2004 was nil (2003 – $9 million; 2002 – $16 million). The compensation expense recorded for the year ended October 31, 2004, in respect of this plan was nil (2003 – $5 million; 2002 – $12 million).

We maintain a non-qualified deferred compensation plan for key employees in the United States under an arrangement called the RBC US 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 a share unit fund that tracks the value of our common shares. Certain deferrals may also be eligible for matching contributions. 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, 2004, was $159 million (2003 – $111 million; 2002 – $70 million). The compensation expense recorded for the year ended October 31, 2004, was $24 million (2003 – $10 million; 2002 –$12 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 $36 million as at October 31, 2004 (2003 – $100 million; 2002 – $151 million). The compensation expense recorded for the year ended October 31, 2004, in respect of this plan was $16 million (2003 – $63 million; 2002 – $74 million).

For other stock-based plans, compensation expense of $4 million was recognized for the year ended October 31, 2004 (2003 – $8 million; 2002 – $19 million). The value of the share units and shares held under these plans as at October 31, 2004, was $13 million (2003 – $13 million; 2002 – $10 million).

The information provided earlier in this section excludes the impact of derivatives, which we use to mitigate our exposure to volatility in the price of our common shares under many of these deferred share plans.

NOTE 20 EARNINGS PER SHARE

	2004	2003(3)	2002
Basic earnings per share			
Net income	**$ 2,839**	$ 3,036	$ 2,898
Preferred share dividends	**(45)**	(68)	(98)
Undistributed earnings allocated to participating contracts	**(8)**	(6)	(4)
Net income after participating contracts and preferred dividends	**$ 2,786**	$ 2,962	$ 2,796
Average number of common shares (in thousands)	**646,023**	662,080	672,571
	$ 4.31	$ 4.47	$ 4.16
Diluted earnings per share			
Net income after participating contracts and preferred dividends	**$ 2,786**	$ 2,962	$ 2,796
Adjustment for participating contracts included in diluted common shares	**4**	—	—
Net income adjusted for diluted computation	**$ 2,790**	$ 2,962	$ 2,796
Average number of common shares (in thousands)	**646,023**	662,080	672,571
Convertible Class B and C shares (1)	**—**	—	14
Stock options (2)	**6,614**	7,545	6,568
Issuable under other stock-based compensation plans	**3,410**	—	—
Average number of diluted common shares (in thousands)	**656,047**	669,625	679,153
	$ 4.25	$ 4.42	$ 4.12

(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. In 2002, 1,846,897 Class C shares were exchanged for 318,154 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 1,087,188 with an exercise price of $62.63 (2003 – 25,205 at $59.35; 2002 – 9,761 at $53.76) as the options' exercise price was greater than the average market price of our common shares.

(3) Basic and diluted earnings per share for 2003 have been restated to reflect a reduction of one cent per share as a result of adopting EITF 03-6 during 2004. See Note 1 for details.

NOTE 21 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 Financial Accounting Standards Board 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

	2004
Credit derivatives/written put options (1)	**$32,342**
Backstop liquidity facilities	**24,464**
Financial standby letters of credit/performance guarantees	**14,138**
Stable value products (1)	**7,709**
Credit enhancements	**3,935**
Mortgage loans sold with recourse	**296**

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

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 five years.

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 one 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.

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 eight 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.

We sell stable value products that offer book value protection primarily to plan sponsors of *Employee Retirement Income Security Act* (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.

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 one and four years.

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, 2004, we have accrued $202 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 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

	2004	2003
Documentary and commercial letters of credit	**$ 592**	$ 2,014
Securities lending	**27,055**	17,520
Commitments to extend credit		
Original term to maturity of 1 year or less	**45,682**	40,432
Original term to maturity of more than 1 year	**28,912**	28,182
Uncommitted amounts	**60,972**	59,801
Note issuance/revolving underwriting facilities	**23**	24
	$163,236	$147,973

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

2005	$ 405
2006	374
2007	312
2008	265
2009	233
Thereafter	829
	$ 2,418

Litigation

Enron Corp. (Enron) litigation

Royal Bank of Canada and certain related entities are defendants in the adversary proceedings in the United States Bankruptcy Court, Southern District of New York, previously brought by Enron (and related debtor affiliates) along with numerous other financial institution defendants.

Royal Bank of Canada and certain related entities are also named as defendants in an action commenced by a putative class of purchasers of Enron publicly traded equity and debt securities between January 9, 1999 and November 27, 2001, entitled *Regents of the University of California v. Royal Bank of Canada* in the United States District Court, Southern District of Texas (Houston Division). This case has been consolidated with the lead action captioned *Newby v. Enron Corp.,* which is the main consolidated putative Enron shareholder class action wherein similar claims have been made against numerous other financial institutions. In addition, Royal Bank of Canada and certain related entities are named as defendants in Enron-related cases, which are filed in various courts in the U.S., asserting similar claims filed by purchasers of Enron securities. Royal Bank of Canada is also a third-party defendant in cases in which Enron's accountants, Arthur Andersen LLP, filed third-party claims against a number of parties, seeking contribution if Arthur Andersen LLP is found liable to plaintiffs in these actions.

It is not possible to predict the ultimate outcome of these lawsuits or the timing of their resolution. Management reviews the status of these matters on an ongoing basis and will exercise its judgment in resolving them in such manner as it believes to be in our best interests. We will defend ourselves vigorously in these cases. However, given the significant uncertainties surrounding the timing and outcome of this litigation, the large number of cases, the multiple defendants in many of them, the novel issues presented, the length of time before these cases will be resolved by settlement or through litigation, and the current difficult litigation environment, no provision for loss has been recorded in the consolidated financial statements as it is presently not possible to determine our ultimate exposure for these matters. Management believes the ultimate resolution of these lawsuits and other proceedings, while not likely to have a material adverse effect on our consolidated financial position, may be material to our operating results for any particular period.

Rabobank settlement

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, recorded in Other assets, Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank) initiated an action against us in New York State Court in an effort to nullify its obligation under the swap. On June 24, 2002, we instituted proceedings against Rabobank in the High Court in London, alleging that Rabobank had repudiated its obligation under the swap.

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 with Enron, the Enron Creditors' Committee and Rabobank. The settlement received reduced the amount owing by Rabobank to US$322 million plus interest.

On February 16, 2004, Royal Bank of Canada announced that it had reached a confidential settlement, through non-binding mediation with Rabobank, resolving this litigation. The settlement, net of a related reduction in compensation and tax expenses, decreased Net income in 2004 by $74 million.

Other

Various other legal proceedings are pending that challenge certain of our practices or actions. Management considers that the aggregate liability resulting from these other proceedings will not be material to our financial position or results of operations.

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

	2004	2003
Assets pledged to:		
Foreign governments and central banks	**$ 1,172**	$ 1,220
Clearing systems, payment systems and depositories	**1,257**	1,055
Assets pledged in relation to:		
Derivative transactions	**3,759**	2,415
Securities borrowing and lending	**32,620**	29,377
Obligations related to securities sold under repurchase agreements	**21,705**	23,735
Other	**3,298**	2,575
	$63,811	$60,377

NOTE 21 GUARANTEES, COMMITMENTS AND CONTINGENCIES (continued)

Collateral

At October 31, 2004, the approximate market value of collateral accepted that may be sold or repledged by us was $63.5 billion (2003 – $63.1 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions. Of this amount, $28.2 billion (2003 – $40.4 billion) has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

NOTE 22 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 and futures are contractual obligations 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 specified 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 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. Certain warrants and loan commitments that meet the definition of derivative are also included as derivative instruments.

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, changes in fair value of the derivatives will substantially offset the changes in fair value of 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, 2004, the ineffective portions recognized in Non-interest income amounted to a net unrealized loss of $4 million (2003 – $9 million gain). 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, 2004.

Cash flow hedge

For the year ended October 31, 2004, a net unrealized loss of $147 million (2003 – $57 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 $59 million (2003 – $80 million) was reclassified to Net income during the year. A net loss of $77 million (2003 – $40 million) deferred in Accumulated other comprehensive income as at October 31, 2004, is expected to be reclassified to Net income during the next 12 months.

For the year ended October 31, 2004, a net unrealized loss of $20 million (2003 – $43 million gain) 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, 2004.

Hedges of net investments in foreign operations

For the year ended October 31, 2004, we experienced foreign currency losses of $1,336 (2003 – $2,988 million) related to our net investments in foreign operations, which were offset by gains of $678 (2003 – $2,149 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 $40 billion and $16 billion, respectively (2003 – $37 billion and $13 billion) at October 31, 2004. These amounts exclude fair value of $266 million (2003 – $82 million) relating to exchange-traded instruments as they are subject to daily margining and are deemed to have no credit risks. Fair value of $56 million (2003 – $92 million) relating to certain warrants, loan commitments and embedded derivatives that meet the definition of derivatives for financial reporting are also excluded.

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 2004 and 2003, neither our actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

NOTE 23 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.

	2004								
	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets (1)	$175,149	76%	$30,739	13%	$20,259	9%	$ 4,053	2%	$230,200
Off-balance sheet credit instruments (2)									
Committed and uncommitted (3)	$ 54,979	41%	$49,099	36%	$21,850	16%	$ 9,638	7%	$135,566
Other	25,503	55	13,597	30	7,013	15	177	—	46,290
Derivatives before master netting agreement (4)	9,968	25	9,951	25	18,324	45	1,891	5	40,134
	$ 90,450	41%	$72,647	33%	$47,187	21%	$11,706	5%	$221,990

[Additional columns below]

[Continued from above table, first column(s) repeated]

	2003								
	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
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)	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

(1) Includes assets purchased under reverse repurchase agreements, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 41% (2003 – 38%) and British Columbia at 10% (2003 – 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 37% (2003 – 39%), government of 13% (2003 – 16%), mining and energy of 11% (2003 – 12%), transportation of 4% (2003 – 6%), wholesale of 4% (2003 – 4%) and manufacturing of 3% (2003 – 3%).

(4) The largest concentration by counterparty type of this credit risk exposure is with banks at 66% (2003 – 66%).

NOTE 24 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 represent point in time estimates only and 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

	2004			2003		
	Book value	Estimated fair value	Difference	Book value	Estimated fair value	Difference
Financial assets						
Cash and deposits with banks	$ 9,994	$ 9,994	$ —	$ 5,979	$ 5,979	$ —
Securities	127,496	127,496	—	128,338	128,338	—
Assets purchased under reverse repurchase agreements	34,862	34,862	—	36,289	36,289	—
Loans (net of allowance for loan losses)	187,510	188,986	1,476	170,492	172,306	1,814
Other assets	79,459	79,459	—	63,437	63,437	—
Financial liabilities						
Deposits	271,575	272,437	(862)	260,518	261,834	(1,316)
Other liabilities	94,838	94,838	—	72,237	72,237	—
Subordinated debentures	8,522	8,453	69	6,581	6,587	(6)

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 and deposits with banks and Assets purchased under reverse repurchase agreements are assumed to approximate carrying value.

NOTE 25 BUSINESS REALIGNMENT CHARGES

On September 9, 2004, the Board of Directors approved a realignment of our organizational structure effective November 1, 2004. The objectives of the business realignment are to accelerate revenue growth, reduce costs and to streamline and improve the efficiency of our operations in order to better serve our clients. A key aspect of the realignment involves reorganizing our existing five segments into the following three, effective November 1, 2004:

- a Canadian personal and business segment, which combines our Canadian banking, investments and global insurance businesses, including Canadian, U.S. and international insurance operations;
- a U.S. and international segment, which includes banking and investments in the U.S., banking and brokerage in the Caribbean, and Global Private Banking internationally; and
- a global capital markets segment that includes corporate banking, which serves corporate and larger commercial clients.

During the fourth quarter, we began executing the other key initiatives of the business realignment, which comprise staff reductions and reducing occupancy costs. We expect the majority of these realignment initiatives to be completed during fiscal 2005 although certain lease obligations extend beyond that time.

Business realignment charges

	Employee-related charges	Premises-related charges	Other charges	Total charges
Realignment charges	$ 166	$ 13	$ 13	$ 192
Cash payments	—	—	—	—
Balance at October 31, 2004	$ 166	$ 13	$ 13	$ 192

At October 31, 2004, we recorded aggregate pre-tax business realignment charges of $192 million, of which $166 million relates to severance costs for 1,660 employee positions. The distribution of the employee positions across the segments is as follows: Banking – 1,030; Investments – 88; Insurance – 145; Capital Markets – 113; Global Services – 10; Other – 274. Geographically, 1,120 positions relate to Canada, 477 to the U.S. and 63 Other International. Approximately 40 employees were notified by October 31, 2004.

We are in the process of closing 38 of RBC Mortgage Company's (RBC Mortgage) 213 branches in the United States. In addition, in January 2005, the Chicago headquarters of RBC Mortgage will be closed and the operations transferred to our Houston office. We have included in our business realignment charges the fair value of the remaining future lease obligations, net of anticipated sublease revenues, for the premises that we have vacated but for which we remain the lessee. We have also expensed the lease cancellation payments for those locations for which we have legally extinguished our lease obligation. The carrying value of redundant assets in the closed premises has been included in premises-related costs. An additional 9 RBC Mortgage branches and 10 of RBC Centura Banks' 275 branches are scheduled to be closed in fiscal 2005. The premises-related costs associated with these closures will be recorded in fiscal 2005.

We engaged a professional services firm to provide us with strategic and organizational advice with respect to the business realignment initiatives. A charge of $13 million for these services is recorded in Other charges in the above table.

At October 31, 2004, business realignment charges to be paid in future periods were $192 million and are recorded in Other liabilities on the Consolidated balance sheet. The total business realignment charges for each segment are disclosed in Note 3. As at October 31, 2004, the premises-related costs and the other costs pertain to the RBC Banking and Other segments, respectively.

NOTE 26 SUBSEQUENT EVENTS

The following significant event occurred subsequent to October 31, 2004, and prior to the issuance of our 2004 consolidated financial statements.

On November 23, 2004, we agreed to sell Liberty Insurance Services Corp. (LIS) to IBM. The sale, which is expected to close by December 31, 2004, subject to the satisfaction of customary conditions including the receipt of regulatory approvals, will result in the transfer of approximately 700 LIS employees to IBM. The total assets and liabilities of LIS are immaterial to RBC Insurance and the sale is expected to result in a nominal gain. In connection with the sale agreement, we entered into a long-term services agreement with IBM whereby it will perform certain processing and management functions for the U.S. operations of RBC Insurance.

QUARTERLY HIGHLIGHTS

(C$ millions, except per share and percentage amounts)	2004 Q4	Q3	Q2	Q1	Q4
Consolidated statement of income					
Net interest income	$ 1,725	$ 1,717	$ 1,602	$ 1,640	$ 1,592
Non-interest income	2,673	2,688	2,750	2,555	2,657
Provision for credit losses	(97)	(125)	(153)	28	(137)
Insurance policyholder benefits, claims and acquisition expense	(414)	(422)	(343)	(330)	(386)
Non-interest expense	(2,790)	(2,720)	(2,729)	(2,781)	(2,582)
Business realignment charges	(192)	–	–	–	—
Goodwill impairment	(130)	–	–	–	—
Income taxes	(235)	(342)	(328)	(289)	(316)
Non-controlling interest	(36)	(28)	(25)	(30)	(24)
Net income	$ 504	$ 768	$ 774	$ 793	$ 804
Earnings per share (1)					
Basic	$ .77	$ 1.17	$ 1.17	$ 1.20	$ 1.20
Diluted	.76	1.15	1.16	1.18	1.19
Performance ratios					
Return on common equity	11.0%	16.8%	17.3%	18.1%	18.0%
Return on assets	.44	.66	.69	.73	.78
Return on assets after preferred dividends	.43	.65	.68	.72	.77
Net interest margin (2)	1.51	1.48	1.43	1.51	1.55
Non-interest income as a % of total revenues	60.8	61.0	63.2	60.9	62.5
Consolidated balance sheet					
Assets					
Cash, deposits with banks and securities	$ 137,490	$ 148,032	$ 147,215	$ 146,887	$ 134,317
Assets purchased under reverse repurchase agreements	34,862	37,988	37,187	32,612	36,289
Residential mortgage loans	84,172	82,211	80,201	78,577	78,819
Personal loans	36,848	38,947	37,701	36,057	32,186
Credit card loans	6,456	7,158	6,739	6,225	4,816
Business and government loans	61,678	65,955	65,877	63,334	56,726
Allowance for loan losses	(1,644)	(1,693)	(1,739)	(1,846)	(2,055)
Other assets	87,820	76,768	82,616	80,598	71,493
	$ 447,682	$ 455,366	$ 455,797	$ 442,444	$ 412,591
Liabilities and shareholders' equity					
Deposits – Canada	$ 169,450	$ 168,076	$ 164,182	$ 156,746	$ 154,523
Deposits – International	102,125	110,093	108,020	109,134	105,995
Other liabilities	147,686	148,193	154,392	148,857	125,901
Subordinated debentures	8,522	8,730	8,803	8,031	6,581
Non-controlling interest in subsidiaries	1,524	1,569	1,585	1,493	1,474
Total equity	18,375	18,705	18,815	18,183	18,117
	$ 447,682	$ 455,366	$ 455,797	$ 442,444	$ 412,591
Selected average balances and off-balance sheet data					
Averages (3)					
Assets	$ 454,300	$ 462,200	$ 457,100	$ 432,000	$ 406,500
Loans and acceptances	201,480	199,833	192,745	178,860	178,924
Deposits	273,591	272,632	267,254	262,025	252,314
Common equity	17,826	17,914	17,891	17,132	17,454
Total equity	18,639	18,727	18,703	17,944	18,271
Assets under administration	1,610,200	1,612,400	1,620,200	1,575,700	1,483,900
Assets under management	93,500	95,600	95,200	92,300	88,900
Provision for credit losses					
Allocated specific	$ 122	$ 125	$ 153	$ 122	$ 137
Allocated general	(11)	18	(24)	(130)	7
Total allocated	111	143	129	(8)	144
Unallocated	(14)	(18)	24	(20)	(7)
Total	$ 97	$ 125	$ 153	$ (28)	$ 137
Nonaccrual loans as a % of loans and acceptances	.64%	.71%	.83%	.95%	.98%
Capital ratios (Canadian basis) (4)					
Common equity/risk-adjusted assets	9.5%	9.9%	10.2%	10.1%	10.5%
Tier 1	8.9	9.1	9.3	9.3	9.7
Total	12.4	12.7	12.9	12.9	12.8
Common share information					

Shares outstanding (in thousands)					
End of period	**644,748**	**649,066**	**653,280**	**655,963**	656,021
Average basic	**641,166**	**645,074**	**647,737**	**650,044**	656,952
Average diluted	**651,279**	**654,768**	**658,144**	**659,356**	664,450
Dividends per share	**$ .52**	**$ .52**	**$ .52**	**$ .46**	$ .46
Book value per share	**27.49**	**27.81**	**27.78**	**26.80**	26.38
Common share price – High (5)	**63.77**	**61.88**	**65.64**	**65.90**	65.00
Low (5)	**58.94**	**58.04**	**60.56**	**60.26**	57.50
Close	**63.40**	**61.50**	**60.95**	**63.19**	63.48
Dividend yield	**3.4%**	**3.5%**	**3.3%**	**2.9%**	3.0%
Dividend payout ratio	**68%**	**44%**	**44%**	**38%**	38%

[Additional columns below]

[Continued from above table, first column(s) repeated]

(C$ millions, except per share and percentage amounts)	2003 Q3	Q2	Q1
Consolidated statement of income			
Net interest income	$ 1,644	$ 1,628	$ 1,714
Non-interest income	2,658	2,433	2,621
Provision for credit losses	(167)	(211)	(200)
Insurance policyholder benefits, claims and acquisition expense	(335)	(312)	(371)
Non-interest expense	(2,581)	(2,514)	(2,559)
Business realignment charges	—	—	—
Goodwill impairment	—	—	—
Income taxes	(413)	(304)	(410)
Non-controlling interest	(30)	(31)	(28)
Net income	$ 776	$ 689	$ 767
Earnings per share (1)			
Basic	$ 1.15	$ 1.00	$ 1.12
Diluted	1.14	0.99	1.10
Performance ratios			
Return on common equity	17.4%	15.4%	16.9%
Return on assets	.77	.71	.77
Return on assets after preferred dividends	.75	.68	.74
Net interest margin (2)	1.62	1.67	1.71
Non-interest income as a % of total revenues	61.8	59.9	60.5
Consolidated balance sheet			
Assets			
Cash, deposits with banks and securities	$ 129,667	$ 126,461	$ 119,892
Assets purchased under reverse repurchase agreements	43,371	38,879	39,396
Residential mortgage loans	77,201	74,431	73,417
Personal loans	31,444	30,857	30,525
Credit card loans	5,625	5,327	5,214
Business and government loans	57,466	57,710	59,929
Allowance for loan losses	(2,156)	(2,226)	(2,267)
Other assets	66,786	66,812	66,190
	$ 409,404	$ 398,251	$ 392,296
Liabilities and shareholders' equity			
Deposits – Canada	$ 153,928	$ 148,156	$ 141,767
Deposits – International	103,805	103,410	106,864
Other liabilities	125,013	119,298	116,068
Subordinated debentures	6,780	6,828	6,885
Non-controlling interest in subsidiaries	1,454	1,475	1,445
Total equity	18,424	19,084	19,267
	$ 409,404	$ 398,251	$ 392,296
Selected average balances and off-balance sheet data			
Averages (3)			
Assets	$ 402,400	$ 399,700	$ 397,400
Loans and acceptances	176,070	177,609	178,444
Deposits	251,506	248,709	254,112
Common equity	17,475	17,697	17,512
Total equity	18,453	19,184	19,026
Assets under administration	1,444,000	1,368,200	1,434,200
Assets under management	89,200	88,700	91,600
Provision for credit losses			
Allocated specific	$ 167	$ 211	$ 200
Allocated general	(5)	2	2
Total allocated	162	213	202

Unallocated	5	(2)	(2)
Total	$ 167	$ 211	$ 200
Nonaccrual loans as a % of loans and acceptances	1.07%	1.23%	1.35%
Capital ratios (Canadian basis) (4)			
Common equity/risk-adjusted assets	10.4%	10.6%	10.6%
Tier 1	9.6	9.6	9.4
Total	12.7	12.8	12.7
Common share information			
Shares outstanding (in thousands)			
End of period	658,612	662,427	666,439
Average basic	660,810	664,634	666,006
Average diluted	668,133	671,991	674,035
Dividends per share	$ .43	$ .43	$ .40
Book value per share	26.73	26.59	26.66
Common share price – High (5)	61.64	59.91	59.86
Low (5)	56.75	53.26	53.91
Close	58.90	59.80	55.30
Dividend yield	2.9%	3.0%	2.8%
Dividend payout ratio	37%	43%	36%

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

(5) Intraday high and low share prices.

Financial review

> Canadian GAAP

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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 United States 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 2005, our medium- and long-term goals, and our strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “plan,” “anticipate,” “estimate,” “expect,” “intend,” 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 our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian and United States economies and economies of other countries in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary 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; the impact of changes in the laws and regulations regulating financial services and the enforcement thereof (including banking, insurance and securities); judicial or regulatory judgments and legal proceedings; our ability to obtain accurate and complete information from or on behalf of our customers and counterparties; our ability to successfully realign our organizational structure, resources and processes; our ability to complete strategic acquisitions and to integrate our acquisitions successfully; the changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; and other factors that may affect future results including changes in trade policies, timely development and introduction of new products and services, changes in tax laws, technological changes, unexpected changes in consumer spending and saving habits, the possible impact on our businesses of international conflicts and other developments including those relating to the war on terrorism, and our anticipation of and success in managing the foregoing risks.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the bank, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. 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, 2004, compared to those of the 12 months ended October 31, 2003 and 2002. The consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP) are on pages 74A to 114A.

Our fiscal year-end is October 31. This management's discussion and analysis is dated December 20, 2004. All dollar amounts are in Canadian dollars, unless otherwise specified.

Additional information relating to Royal Bank of Canada, including our 2004 Annual Information Form, is available free of charge on our website at *rbc.com*, on the Canadian Securities Administrators' website at *sedar.com* and on the EDGAR section of the United States Securities and Exchange Commission's website at *sec.gov*.

Business overview

Royal Bank of Canada is a diversified global financial service group and a leading provider of personal and commercial banking, investment and trust services, insurance, corporate and investment banking, online banking, and transaction-based services including custody. Royal Bank of Canada operates under the master brand RBC Financial Group and for the fiscal year ended October 31, 2004, had five major business segments: RBC Banking (personal and commercial banking), RBC Investments (wealth management), RBC Insurance (insurance), RBC Capital Markets (corporate and investment banking) and RBC Global Services (securities custody and transaction processing). Royal Bank of Canada serves more than 12 million personal, business and public sector clients worldwide from offices in more than 30 countries.

Effective November 1, 2004, we realigned our organizational structure, resources and processes to serve our clients better and more efficiently across all of our businesses, find new ways to generate stronger revenue growth, and streamline our organization and processes for faster decision-making, quicker implementation and better productivity. As part of the realignment, our five prior business segments were realigned into three segments structured around client needs and geographic location: (1) a Canadian personal and business segment, which combines our Canadian banking, investments and global insurance businesses, including Canadian, U.S. and international insurance operations; (2) a U.S. and international segment, which includes banking and investments in the U.S., banking and brokerage in the Caribbean, and Global Private Banking internationally; and (3) a global capital markets segment that includes corporate banking, which serves corporate and larger commercial clients.

We are integrating all our systems and operating capabilities in a global technology and operations group. In the fourth quarter, we eliminated a number of executive and senior management positions, commenced streamlining resources and took action to close redundant premises. We expect the majority of the remaining staff and occupancy cost reductions to be completed during 2005. The more complex technology initiatives will likely yield results in 2006 and 2007.

We will begin reporting our financial results under our new structure in the first quarter of 2005. We believe that as a result of the realignment, we will record better expense control and revenue growth performance in Canada and the United States and, accordingly, have established more aggressive financial objectives in these areas for 2005.

For much of 2005, our outlook is for steady interest rates in Canada and rising interest rates in the United States. We look for economic growth in the United States to ease to around 3.7% in 2005, after an estimated 4.4% pace in 2004. In Canada we expect a slight acceleration into the 3% range, after estimated growth of 2.7% in 2004. Overall, the global economy has entered a period of slower, more sustainable growth following robust expansion, which should have a favourable impact on our loan, deposit and revenue growth and the performance of our loan portfolio. The Canadian dollar equivalent of the company's U.S. dollar-denominated revenues, expenses and net income in 2004 were lowered relative to 2003 by the weaker U.S. dollar. The continued appreciation of the Canadian dollar relative to the U.S. dollar would reduce the translated value of our U.S. dollar-denominated revenues, expenses and earnings in 2005 compared to those in 2004.

FINANCIAL OVERVIEW

As shown in the table below, net income in 2004 decreased $188 million or 6% from 2003. This largely reflected a $700 million increase in non-interest expenses (including a $406 million increase in human resources expenses and the Cooperatieve Centrale Raiffeisen-Boerenleenbank (Rabobank) settlement costs in the first quarter), business realignment charges of $192 million, a goodwill impairment charge of $130 million and a $55 million decline in the translated value of the U.S. dollar-denominated earnings due to the strengthening of the Canadian dollar relative to the U.S. dollar. These factors more than offset the benefits of a $703 million increase in revenues, a $375 million decline in the provision for credit losses and a lower income tax expense.

Table 1 Financial overview

(C$ millions, except per share data and percentage amounts)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Total revenues	**$18,121**	$17,418	$17,255	**$ 703**	**4%**
Non-interest expense	**11,109**	10,409	10,420	**700**	**7**
Business realignment charges	**192**	–	–	**192**	**n.m.**
Goodwill impairment	**130**	–	–	**130**	**n.m.**
Provision for (recovery of) credit losses					
Specific	**521**	721	1,065	**(200)**	**(28)**

General	**(175)**	–	–	**(175)**	**n.m.**
Net income	**2,817**	3,005	2,762	**(188)**	**(6)**
Earnings per share (EPS) – diluted	**4.23**	4.39	3.93	**(.16)**	**(4)**
Return on equity (ROE)	**15.6%**	16.7%	15.8%		**(110)bp**
Tier 1 capital ratio (1)	**8.9%**	9.7%	9.3%		**(80)bp**
Total capital ratio (1)	**12.4%**	12.8%	12.7%		**(40)bp**

(1) Calculated using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information.
n.m. not meaningful

Diluted earnings per share were $4.23, down $.16 or 4% from a year ago. This decline occurred despite a $.09 increase due to a 2% reduction in average shares outstanding in 2004, which was offset by an $.08 decrease due to the strengthening of the Canadian dollar relative to the U.S. dollar.

The Canadian dollar appreciated 9% relative to the U.S. dollar, averaging US$.762 in 2004 compared to US$.697 in 2003, which lowered our revenues, expenses and net income by $550 million, $345 million and $55 million, respectively, compared to 2003. 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.

Our 2004 results were affected by a number of factors. Revenues were negatively influenced by low interest rates and competitive pricing pressures, which compressed deposit and residential mortgage spreads, and by the appreciation of the Canadian dollar relative to the U.S. dollar compared to a year ago. However, we delivered solid loan and deposit growth as the result of ongoing marketing initiatives and product and service launches and benefited from stronger capital markets. On the expense side, we experienced higher human resources expenses (primarily higher benefit costs and higher variable compensation costs, driven by increases in revenues) and the Rabobank settlement costs, net of a related reduction in compensation. Further improvement in the credit environment and successful collection efforts resulted in lower impaired loans and a lower provision for credit losses.

As a result of the business realignment mentioned above, we recorded charges as follows:

Business realignment charges

(C$ millions)	Employee-related charges	Premises-related charges	Other charges	Total charges	Related income taxes	Total charges (after-tax)
RBC Banking	$ 62	$ 13	$ –	$ 75	$ 26	$ 49
RBC Investments	17	–	–	17	6	11
RBC Insurance	8	–	–	8	3	5
RBC Capital Markets	25	–	–	25	9	16
RBC Global Services	3	–	–	3	1	2
Other	51	–	13	64	22	42
Total	$ 166	$ 13	$ 13	$ 192	$ 67	$ 125

We have eliminated a number of executive and senior management positions, commenced streamlining resources and taken actions to close redundant premises. We took business realignment charges of $192 million, including $166 million of employee-related charges, and $26 million of premises-related charges and other charges consisting entirely of professional service fees. The employee-related charge of $166 million relates to approximately 1,660 position eliminations, largely in head office and support roles made redundant by the realignment of our five business segments into three and by the ongoing consolidation of our operations and technology platforms. About 40 staff of the approximately 1,660 positions (primarily executive and senior management staff) were notified by October 31, 2004, and the majority of the remaining positions are expected to be eliminated in 2005. We are in the process of closing 38 of RBC Mortgage's 213 branches in the U.S., with an additional 9 RBC Mortgage branches and 10 of RBC Centura's 275 branches scheduled to be closed in 2005. While these actions reduced the year's earnings, we believe they position us for better performance in the future.

During the fourth quarter, coincident with completion of our annual goodwill impairment test, we announced our business realignment. The results of our goodwill impairment test, which was based on a discounted cash flow model, indicated that the goodwill attributable to RBC Mortgage is impaired by $130 million. As a result, we recorded a $130 million goodwill impairment charge.

Table 2 Results by geographic segment

	2004				2003			
(C$ millions)	Canada	United States	Other International	Total	Canada	United States	Other International	Total
Net interest income	**$ 5,183**	**$1,116**	**$ 394**	**$ 6,693**	$ 5,128	$1,210	$ 258	$ 6,596
Non-interest income	**6,121**	**3,699**	**1,608**	**11,428**	5,426	3,537	1,859	10,822
Total revenues	**11,304**	**4,815**	**2,002**	**18,121**	10,554	4,747	2,117	17,418
Provision for credit losses								
Specific	**417**	**126**	**(22)**	**521**	527	108	86	721
General	**(74)**	**(65)**	**(36)**	**(175)**	–	(2)	2	–
Insurance policyholder benefits, claims and acquisition expense	**909**	**872**	**343**	**2,124**	669	543	484	1,696
Non-interest expense	**6,449**	**3,680**	**980**	**11,109**	5,992	3,511	906	10,409
Business realignment charges	**142**	**44**	**6**	**192**	–	–	–	–
Goodwill impairment	**–**	**130**	**–**	**130**	–	–	–	–
Income taxes (1)	**1,306**	**12**	**85**	**1,403**	1,316	216	55	1,587
Net income	**$ 2,155**	**$ 16**	**$ 646**	**$ 2,817**	$ 2,050	$ 371	$ 584	$ 3,005

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

Net income from Canadian operations was $2,155 million, up $105 million or 5% from 2003. This increase reflects loan and deposit growth in RBC Banking of 9% and 6%, respectively, significant revenue growth in Wealth Management Canada within RBC Investments of $169 million or 14%, the acquisition of the Canadian operations of Provident Life and Accident Insurance Company (UnumProvident) by RBC Insurance, and a decline in the provision for credit losses, partially offset by higher non-interest expenses (largely benefit and variable compensation costs), and business realignment charges of $142 million recorded in the fourth quarter of 2004.

Net income from U.S. operations was down $355 million or 96% from a year ago to $16 million, primarily as a result of the Rabobank settlement costs, the $130 million goodwill impairment charge and lower mortgage origination volumes and margins at RBC Mortgage, lower returns in RBC Centura's investment portfolio, and the business realignment charges of $44 million reported in the fourth quarter.

Other international net income was $646 million in 2004, up $62 million or 11% from 2003, mainly reflecting a recovery of credit losses of $58 million compared to provisions for credit losses of $88 million in 2003.

Financial priorities

Revenue growth and diversification

Total revenues were up $703 million or 4%. The increase in revenues reflected higher insurance revenues (which now include UnumProvident), higher capital markets-related revenues other than trading (mutual fund revenues, securities brokerage commissions, underwriting and other advisory fees, investment management and custodial fees), and strong growth in loans and deposits. These factors more than offset a $550 million reduction due to the strengthening of the Canadian dollar against the U.S. dollar and a $169 million decline in total trading revenues (included in both net interest income and non-interest income). A detailed discussion follows on pages 42A to 45A.

Cost control

Non-interest expense was up $700 million or 7%, largely due to an increase in human resource expenses (primarily higher benefit costs, and higher variable compensation costs, driven by increases in revenues) and the Rabobank settlement costs, net of a related reduction in compensation. The appreciation of the Canadian dollar relative to the U.S. dollar reduced non-interest expense by $345 million. A full discussion is provided on pages 46A to 47A.

Strong credit quality

The provision for credit losses declined by $375 million or 52% due to fewer new problem loans, the reversal of specific allowances reflecting the favourable resolution of a number of earlier problem loans and the reversal of $175 million of the general allowance. Impaired loans declined by $486 million or 28% this year due to successful collection efforts, resulting in a number of problem accounts being repaid, restructured or sold and a general improvement in the credit environment, resulting in fewer new problem loans. Detailed discussion and tables can be found on pages 48A to 56A.

Balance sheet and capital management

Total assets were $429.2 billion at October 31, 2004, up $26.2 billion or 6% from October 31, 2003, reflecting higher loans and other assets. At October 31, 2004, using Superintendent of Financial Institutions Canada (OSFI) guidelines and Canadian GAAP financial information, our Tier 1 capital ratio was 8.9% and our Total capital ratio was 12.4%, both above our medium-term (three- to five-year) goals of 8–8.5% for Tier 1 capital and 11–12% for Total capital. More details are provided on pages 62A to 64A.

Outlook

We are targeting growth in earnings per share of 20%+ and ROE of 18–20% in 2005 based on expectations of better revenue growth and expense control, stronger results in our U.S. operations and continued strength in the Canadian economy in 2005.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Application of critical accounting policies and estimates

Our significant accounting policies are contained in Note 1 to the consolidated financial statements on pages 79A to 84A. Certain of these policies as well as estimates made by management in applying such policies are recognized as critical because they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that significantly different amounts could be reported under different conditions or using different assumptions. Our critical accounting policies and estimates relate to the allowance for credit losses, fair value of financial instruments, securitization and pensions. 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 and estimates.

Allowance for credit losses

The allowance for credit losses represents management's estimate of probable losses incurred in our lending portfolio including loans, acceptances, letters of credit and unfunded commitments, as at the balance sheet date. The allowance for credit losses comprises three distinct components – specific, general allocated and general unallocated; each component is available to absorb losses incurred in the entire portfolio. The specific allowance is determined on an ongoing basis through management's identification and determination of losses related to impaired accounts. The general (allocated and unallocated) allowances are determined on a quarterly basis through management's assessment of probable losses in the remaining portfolio.

The process for determining the allowances involves quantitative and qualitative assessments using current and historical credit information. The process inherently requires the use of certain assumptions and judgments including (i) assessing the impaired status and/or risk ratings of loans, (ii) estimating cash flows and collateral values, (iii) developing default and loss rates based on historical and industry data, (iv) adjusting loss rates and parameters based on the relevance of historical experience given changes in credit strategies, processes and policies, (v) assessing the current credit quality of the portfolio based on credit metric trends in relation to impairments, write-offs and recoveries, and portfolio composition and concentrations, and (vi) determining the current position in the economic and credit cycles. Changes in these assumptions or using other reasonable judgments can materially affect the allowance level and net income.

Specific allowance

Specific allowances are established to absorb probable losses on impaired loans. Loan impairment is recognized when, based on management's judgment, there is no longer reasonable assurance that all interest and principal payments will be made in accordance with the contracted agreement.

For large business and government portfolios, which are continuously monitored, an account is classified as impaired based on our evaluation of the borrower's overall financial condition, its available resources and its propensity to pay amounts as they come due. Specific allowance is

then established on individual accounts that are classified as impaired, using management's judgment relating to the timing of future cash flows including amounts that can be reasonably expected from the borrower, financially responsible guarantors or the realization of collateral. The amounts expected to be recovered are reduced by estimated collection costs and discounted at the effective interest rate of the obligation.

For homogeneous portfolios (consumer and small businesses), excluding credit cards, which are directly written off after 180 days in

arrears, accounts are classified as impaired based on contractual delinquency status, generally 90 days past due. The estimation of specific allowance on these accounts is based on formulas that apply product-specific net write-off ratios to the related impaired amounts. The net write-off ratios are based on historical loss experience, adjusted to reflect management's judgment relating to recent credit quality trends including delinquency, loss severity and portfolio composition.

General allocated allowance

The general allocated allowance is established to absorb expected losses on accounts in the lending portfolio that have not yet been specifically classified as impaired. This estimation is based on a number of assumptions including (i) the level of unidentified problem loans given current economic and business conditions, (ii) the timing of the realization of impairment, (iii) the committed amount that will be drawn when the account is classified as impaired, and (iv) the ultimate severity of loss. In determining the appropriate level of general allocated allowance, management first employs a number of statistical models using historical loss rates and parameters to estimate a range of probable losses over an economic cycle. Management then considers changes in the credit processes including underwriting, limit setting and the workout process in order to adjust historical experience to better reflect the current environment. In addition, current credit information including portfolio composition, credit quality trends and economic, business and industry information is assessed to determine the appropriate allowance level. The level is then compared to other relevant benchmarks to ensure the consistency and reasonableness of the assumptions and the allowance level.

For large business and government loans, the general allocated allowance level is estimated based on management's judgment of business and economic conditions, historical and expected loss experience, the impact of policy changes and other relevant factors. The range of loss is derived through the application of a number of loss parameters related to committed obligations. The key parameters used are probability of default (PD), loss given default (LGD) and usage given default (UGD). PDs are delineated by borrower type and risk rating, LGDs are largely based on transactional structure and client type, and UGDs are applied based on risk rating. These parameters are based on long-term historical loss experience (default migration, loss severity and exposure at default), supplemented by external studies and industry initiatives, and are updated on a regular basis. This approach allows us to generate a range of potential losses over an economic cycle, including an average "expected loss." One of the key judgmental factors that influences the loss estimate for this portfolio is the application of the internal risk rating framework, which relies on our quantitative and qualitative assessments of a borrower's financial condition in order to assign it an internal credit risk rating similar to those used by external rating agencies. As the large business and government loan portfolio is subject to a high level of volatility, management also considers single-name and sectoral concentration risk in assessing the adequacy of the allowance level. Any material change in the above parameters or assumptions would affect the range of expected credit losses and consequently may affect the general allocated allowance level.

For homogeneous loans, including residential mortgages, credit cards, and personal and small business loans, probable losses are estimated on a portfolio basis. Long-term historical net write-off experience is applied to current outstanding loans to determine a range of probable losses over an economic cycle. Management then considers the current portfolio credit quality trends, business and economic conditions, the impact of policy and process changes, and other supporting factors to determine the level of the general allocated allowance.

General unallocated allowance

The general unallocated allowance is based on management's assessment of the overall adequacy of the allowance. This assessment includes (i) an estimate of probable credit losses that have not been captured in the specific and general allocated allowances, due to limitations and imprecision inherent in the allocated allowance methodologies, and (ii) benchmarking against internal and external references.

Based on the procedures discussed above, management is of the opinion that the total allowance for credit losses of $1,714 million is adequate to absorb estimated credit losses incurred in the lending portfolio as at October 31, 2004. This amount includes $70 million related to letters of credit and unfunded commitments, which is classified in other liabilities. The year-over-year reduction of $450 million largely reflects the overall improvement in the credit quality of the portfolio, as well as the reduction in exposure to problem sectors.

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 securities 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, 2004, approximately $128 billion of our financial assets and $67 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 fair value. Note 23 on pages 107A to 109A provides disclosure of the estimated fair value of all our financial instruments at October 31, 2004.

If a quoted market price is not available, we use internal or external financial valuation models to estimate 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.

The majority of our trading securities 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-Schöles, to determine fair value. 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. Unrealized gains and losses at inception are deferred and recognized over the term of the contract unless the fair value of the derivative financial instrument at inception is evidenced by quoted market prices, other current market transactions or observable market inputs. For further information on our derivative instruments, refer to Note 21 on pages 104A to 106A.

The following table summarizes our significant financial assets and liabilities by valuation methodology at October 31, 2004.

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	$89,322	$38,729	$25,005	$42,103
Based on				
Quoted market prices	87%	–%	93%	–%
Pricing models with significant observable market parameters	13	99	7	100
Pricing models with significant unobservable market parameters	–	1	–	–
	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. Refer to the Risk management section on pages 57A to 61A and the Asset/Liability management section on pages 65A to 71A for further details on the sensitivity of financial instruments used in trading and non-trading activities, respectively.

As outlined in Note 1 on page 79A, 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 pages 80A and 81A for further details.

Securitization

We periodically securitize residential mortgages, credit card receivables and commercial mortgage loans by selling them to special purpose entities (SPEs) or trusts that issue securities to investors. Some of the key accounting determinations in a securitization of our loans are whether the transfer of the loans meets the criteria required to be treated as a sale and, if so, the valuation of our retained interests in the securitized loans. A sale can be recognized if we receive consideration other than beneficial interests in the transferred loans, the transferred loans are legally isolated from our creditors, the transferee is able to sell or pledge the transferred loans and we do not maintain effective control over the transferred loans through an agreement to repurchase them or have a right to cause the loans to be returned. When we securitize loans and retain an interest in the securitized loans it is a matter of judgment whether the loans have been legally isolated. We obtain legal opinions where required to establish legal isolation of the transferred loans. We often retain interests in securitized loans such as interest-only strips, servicing rights or cash reserve accounts. Where quoted market prices are not available, the valuation of retained interests in sold assets is based on our best estimate of several key assumptions such as the payment rate of the transferred loans, excess spread, expected credit losses and discount rate. The fair value of such retained interests calculated using these assumptions affects the gain or loss that is recognized from the sale of the loans. See Note 7 on pages 89A to 90A for the volume of securitization activity in our loans, the gain or loss recognized on sale and a sensitivity analysis of the key assumptions in valuing our retained interests. Another key accounting determination is whether the SPE that is used to securitize and sell our loans is required to be consolidated. We concluded that none of the SPEs used to securitize our financial assets should be consolidated.

Pensions

We sponsor a number of defined benefit and defined contribution plans providing pension and other benefits to eligible employees after retirement. These plans include statutory pension plans, supplemental pension plans and health, dental and life insurance plans. These pension plans provide benefits based on years of service, contributions and average earnings at retirement.

Due to the long-term nature of these plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, healthcare cost trend rates, projected salary increases, retirement age, mortality and termination rates. These assumptions are determined by management and are reviewed annually by the actuaries. Actual experience that differs from the assumed experience will affect the amounts of benefit obligation and expense. The weighted average assumptions used and the sensitivity of key assumptions are presented in Note 17 on pages 98A to 99A.

LINE OF BUSINESS RESULTS

Overview

Table 3 below shows our results by business segment in 2004. 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 58A. Common equity in excess of that required to support the risks in our five 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 ROE. Furthermore, the attribution of common equity is a dynamic process and is affected by current business activity, volumes and environmental factors. Other companies may use different methodologies to allocate equity to their segments.

Average allocated common equity attributed to RBC Banking and RBC Capital Markets in 2004 was lower than a year ago. This is partially due to the decline in the translated value of U.S. dollar-denominated assets as a result of the appreciation of the Canadian dollar relative to the U.S. dollar. RBC Banking was also affected by the recalibration of credit risk portfolio rates for personal loan products, which reduced its allocated common equity, largely offset by attributions for the acquisitions of Sterling Capital Mortgage Company (Sterling) on September 30, 2003, and the Florida operations of Provident Financial Group, Inc. on November 21, 2003. The decrease in RBC Capital Markets also reflected lower credit risk, partially offset by an increase in equity attributed for higher market risk. Average allocated common equity attributed to RBC Insurance was higher, largely due to the acquisition of the Canadian operations of Provident Life and Accident Insurance Company (UnumProvident) on May 1, 2004, and to the first full year of the attribution for the acquisition of Business Men's Assurance Company of America (BMA) on May 1, 2003. Average allocated common equity attributed to RBC Investments had minimal change, while that attributed to RBC Global Services was unchanged.

Net income from RBC Banking fell to 46% of total net income from 52% last year, as net income declined 17%. ROE was 18.5% compared to 21.0% in 2003, reflecting the earnings decline. The financial performance of RBC Banking is discussed in detail on pages 30A–32A.

RBC Investments contributed 17% of our total net income. Net income grew 20% in 2004, while ROE increased 350 basis points to 18.5%. The factors contributing to the earnings improvement of RBC Investments are discussed in detail on pages 33A–34A.

We generated 9% of our total net income from RBC Insurance, which had net income growth of 19%. ROE remains strong at 23.8%. A detailed discussion of the financial performance of RBC Insurance is provided on pages 35A–37A.

Net income from RBC Capital Markets increased 23% from last year, accounting for 22% of our total net income in 2004. ROE rose to 17.7% from 13.0% last year. An analysis of the financial performance of RBC Capital Markets is provided on pages 38A–39A.

RBC Global Services generated 8% of total net income and recorded earnings growth of 27%, while ROE increased 760 basis points to 35.1% in 2004. The financial performance of RBC Global Services is discussed in detail on pages 40A–41A.

The Other segment recorded a net loss of $70 million compared to net income of $133 million in 2003. The decline in net income reflected a number of factors, which are discussed in detail on page 41A.

Effective November 1, 2004, we realigned our five prior business segments into three segments structured around client needs and geographic locations: (1) a Canadian personal and business segment, which combines our Canadian banking, investments and global insurance businesses including Canadian, U.S. and international insurance operations; (2) a U.S. and international segment, which includes banking and investments in the U.S., banking and brokerage in the Caribbean, and Global Private Banking internationally; and (3) a global capital markets segment that includes corporate banking, which serves corporate and larger commercial clients. In addition, we are integrating all our systems and operating capabilities in a global technology and operations group. As the reorganization only became effective after the end of the 2004 fiscal year, the following management discussion and analysis is based on our previous structure. Further details on how businesses in each of the five segments will be reorganized under the new structure are presented in the Overview section for each segment on the pages that follow. We will begin reporting our financial results under the new structure in the first quarter of 2005.

Table 3 Results by business segment

	2004			
(C$ millions, except per share and percentage amounts)	**RBC Banking**	**RBC Investments**	**RBC Insurance**	**RBC Capital Markets**
Net interest income	**$5,517**	**$ 429**	**$ –**	**$ 679**
Non-interest income	**2,040**	**3,322**	**2,870**	**2,077**
Total revenues	**7,557**	**3,751**	**2,870**	**2,756**
Provision for credit losses				
Specific	**550**	**4**	**–**	**8**
General	**(76)**	**–**	**–**	**(85)**
Insurance policyholder benefits, claims and acquisition expense	**–**	**–**	**2,124**	**–**
Non-interest expense	**4,840**	**3,014**	**487**	**2,017**
Business realignment charges	**75**	**17**	**8**	**25**
Goodwill impairment	**130**	**–**	**–**	**–**
Income taxes	**730**	**226**	**(5)**	**164**

Non-controlling interest	**16**	**–**	**–**	**2**
Net income (loss)	**$1,292**	**$ 490**	**$ 256**	**$ 625**
U.S. net (loss) income	**(179)**	**118**	**(6)**	**87**
Net income				
As a % of total	**46%**	**17%**	**9%**	**22%**
% growth over prior year	**(17)%**	**20%**	**19%**	**23%**
Return on common equity	**18.5%**	**18.5%**	**23.8%**	**17.7%**
Average allocated common equity(2)	**$7,000**	**$ 2,600**	**$1,050**	**$ 3,500**

[Additional columns below]

[Continued from above table, first column(s) repeated]

	2003			
(C$ millions, except per share and percentage amounts)	**RBC Global Services**	**Other(1)**	**Total**	**Total**
Net interest income	**$ 177**	**$ (109)**	**$ 6,693**	$ 6,596
Non-interest income	**887**	**232**	**11,428**	10,822
Total revenues	**1,064**	**123**	**18,121**	17,418
Provision for credit losses				
Specific	**(5)**	**(36)**	**521**	721
General	**(14)**	**–**	**(175)**	–
Insurance policyholder benefits, claims and acquisition expense	**–**	**–**	**2,124**	1,696
Non-interest expense	**738**	**13**	**11,109**	10,409
Business realignment charges	**3**	**64**	**192**	–
Goodwill impairment	**–**	**–**	**130**	–
Income taxes	**118**	**(1)**	**1,232**	1,460
Non-controlling interest	**–**	**153**	**171**	127
Net income (loss)	**$ 224**	**$ (70)**	**$ 2,817**	$ 3,005
U.S. net (loss) income	**8**	**(12)**	**16**	371
Net income				
As a % of total	**8%**	**(2)%**	**100%**	100%
% growth over prior year	**27%**	**(153)%**	**(6)%**	9%
Return on common equity	**35.1%**	**(2.6)%**	**15.6%**	16.7%
Average allocated common equity(2)	**$ 650**	**$3,000**	**$17,800**	$17,550

(1) Represents other activities, which mainly comprise Corporate Treasury, Corporate Resources, and Information Technology.

(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

Overview

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 and client preferences 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.

Effective November 1, 2004, most of the Canadian operations within RBC Banking became part of the new Canadian personal and business segment, and operations in the U.S. and the Caribbean and the Bahamas became part of the new U.S. and international segment. Larger commercial clients previously served by RBC Banking will be served by the new global capital markets segment.

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, mortgages and deposits. The U.S. market is more fragmented, and regional markets are often highly competitive. Many banks across North America have expanded their focus to offer investment products and financial planning and advice to targeted clients. Critical success factors include providing a superior client experience, competitive products, strong revenue-focused sales processes, rigorous credit and operational risk management practices, and tight expense control.

Our strengths

- Established Canadian retail banking brand
- Strong capabilities in Customer Relationship Management (CRM), client segmentation and specialized sales forces
- Comprehensive product, sales, service and national distribution capabilities in Canada compared to niche players
- Among Canadian banks, market leadership in client household penetration in personal markets in Canada, and lead market share in total personal deposits and mutual funds, residential mortgages, business deposits, and business financing in Canada
- Presence in U.S. retail banking

2005 outlook

Our business results are influenced by Canadian and U.S. economic conditions and the effects of interest rates on consumer and business loan demand, net interest margins, credit quality trends and exchange rates, particularly the value of the U.S. dollar relative to the Canadian dollar.

In Canada, based on our forecast of stable interest rates through much of 2005, we anticipate that deposit spreads could remain somewhat compressed. However, reasonable economic and accompanying loan growth should have positive overall revenue implications for our Canadian consumer business, which will be part of the Canadian personal and business segment in 2005.

For our U.S. businesses, which will be part of the U.S. and international segment in 2005, we anticipate that organic loan and deposit balance growth will contribute favourably to RBC Centura revenues. Higher U.S. interest rates expected in 2005 could reduce the volume of mortgage origination loan activity at RBC Mortgage.

Our focus on revenue growth and cost management initiatives across Canada and the U.S. should also yield favourable results.

Financial performance

Net income from RBC Banking declined $269 million or 17% from a year ago as an earnings decline in U.S. operations more than offset earnings growth in Canada. Earnings in Canada improved $68 million or 5%, as revenue growth of $160 million, lower income taxes and a $76 million reversal of the general allowance were partially offset by a $169 million increase in non-interest expense (largely attributable to higher benefit and other compensation costs) and $47 million in business realignment charges. The $179 million net loss in the U.S. operations reflects the goodwill impairment charge of $130 million, as well as lower revenues from both RBC Centura and RBC Mortgage and $28 million in business realignment charges. The strengthening of the Canadian dollar relative to the U.S. dollar had an unfavourable impact on RBC Banking's net income of $6 million.

Results

(C$ millions, except percentage amounts)	% change	2004	2003
Net interest income	(1)%	**$ 5,517**	$ 5,546
Non-interest income	(4)	**2,040**	2,127
Total revenues	(2)	**7,557**	7,673

Provision for credit losses			
Specific	(1)	**550**	554
General	n.m.	**(76)**	–
Total	(14)	**474**	554
Non-interest expense	4	**4,840**	4,650
Business realignment charges	n.m.	**75**	–
Goodwill impairment	n.m.	**130**	–
Net income before income taxes	(17)	**2,038**	2,469
Income taxes	(19)	**730**	900
Non-controlling interest	100	**16**	8
Net income	(17)%	**$ 1,292**	$ 1,561
U.S. net (loss) income	(216)%	**$ (179)**	$ 154
Net income as a % of total group net income	(600)bp	**46%**	52%
ROE	(250)bp	**18.5%**	21.0%
Net interest margin (average assets)	(22)bp	**3.20%**	3.42%
Net interest margin (average earning assets)	(24)bp	**3.38%**	3.62%
Efficiency ratio (1)	340bp	**64.0%**	60.6%
Average assets (2)	6%	**$172,300**	$162,400
Average loans and acceptances (2)	7	**158,500**	147,900
Average deposits (2)	5	**140,700**	133,700
Average allocated common equity (2), (3)	(5)	**7,000**	7,350
Credit information			
Impaired loans	(17)	**$ 507**	$ 609
Net write-offs	(6)	**611**	648
Net write-offs as a % of average loans and acceptances	(5)bp	**.39%**	.44%
Number of employees (full-time equivalent)	1%	**37,884**	37,475

(1) Efficiency ratio is defined in the Glossary on page 121.

(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 29A.

n.m. not meaningful

Total revenues declined $116 million or 2% from last year, including the impact of the stronger Canadian dollar relative to the U.S. dollar, which reduced revenues by $107 million. In Canada, revenues rose $160 million or 3%, reflecting strong growth in loan and deposit balances and higher fee income, partly offset by a narrower net interest margin. Revenues in the U.S., however, were down $261 million or 20% (down 13% in U.S. dollars), reflecting lower origination volumes and margins at RBC Mortgage and lower returns in RBC Centura's investment portfolio. These factors were partially offset by the inclusion of a full year of revenues for Sterling in 2004 compared to one month of revenues in 2003, and strong loan growth in RBC Centura.

Total non-interest expense increased $190 million or 4% from a year ago, notwithstanding the favourable impact of the strengthening of the Canadian dollar relative to the U.S. dollar, which reduced expenses by $94 million. Expenses in Canada grew $169 million or 5%, mainly due to higher benefit costs (largely reflecting pension and postretirement benefit expenses), and other compensation costs. In the U.S., expenses increased $23 million or 2% (up 11% in U.S. dollars) reflecting a full year of expenses for Sterling in 2004 compared to one month of expenses in 2003, and a valuation allowance of $33 million in the second quarter of 2004 relating to certain mortgage loans that are believed to have been fraudulently originated in 2001 and 2002. However, the increase was partially offset by the impact of the strengthening Canadian dollar relative to the U.S. dollar, which reduced expenses by $93 million.

The provision for credit losses decreased $80 million or 14% from last year principally due to the $76 million reversal of the general allowance in 2004. Credit quality strengthened across the portfolio, with net write-offs as a per cent of average loans and acceptances declining 5 basis points to .39%.

ROE declined to 18.5% from 21.0% a year ago, due to lower earnings this year and despite a decrease in average allocated common equity attributed to the segment.

REVIEW BY DIVISION

RBC BANKING– CANADA

Operating under the RBC Royal Bank brand, we serve individuals, small and medium-sized businesses, and commercial clients in all provinces and territories. Roughly one third of Canadian households deal with Royal Bank of Canada, which is the leading financial institution in Canada in terms of household penetration.

We offer our clients extensive physical and alternative distribution choices, providing them with 24/7 access. We continue to strengthen our distribution channel capabilities, including reinvestment in our branch network and staff, and in our electronic banking capabilities. More and more of our clients are availing themselves of our online banking services (see chart below). We have also strengthened our telephone banking capabilities delivered through Royal Direct, with specialized business advisors focused on small business clients and client care officers dedicated to client problem resolution.

We offer a wide range of financial services and advice, as detailed on page 30A, and products and expertise in specialized areas such as foreign exchange, asset-based finance, leasing and automotive finance. We continue to strengthen our product lines, which include a full choice of credit card products such as our no fee RBC Rewards Visa Classic card introduced in 2004 and our increasingly popular RBC Royal Bank Visa Platinum Avion card. We provide merchants with credit and debit card acceptance services, point-of-sale capabilities and Internet-secure electronic transaction solutions through Moneris Solutions, Inc. (Moneris Solutions), a joint venture in which we participate equally with Bank of Montreal. We expanded our mortgage product offerings with the introduction in 2004 of RBC Homeline Plan, RBC Vacation Home Mortgages, and RBC No Down Payment Mortgages. Such product depth has contributed to strong volume growth in 2004 across nearly all product categories (see table at right), reinforcing our number one or number two product market share positions in Canada.

We also continue to strengthen our expertise in CRM and client segmentation, placing strong focus on targeted sub-segments such as high-growth manufacturers, professionals, business owners and "Snowbirds." We have a strong specialized sales force, which includes investment and retirement planners, financial planners, mortgage specialists and Knowledge-Based Industry and Agriculture focused account managers, among others. We are leveraging our diverse expertise to deliver strong capabilities in financial planning and advice.

Financial performance

Total revenues rose $160 million or 3%, as strong growth in loan and deposit balances and higher fee income were partly offset by a narrower net interest margin. Residential mortgage, personal loan and credit card average balances all grew in excess of 10%, while non-interest income grew 5%, driven by stronger credit card revenues due to higher spending volumes and higher mutual fund revenues from capital market appreciation and stronger sales. Net interest margin narrowed 19 basis points as the low interest rate environment and competitive pricing contributed to spread compression on deposits and residential mortgages.

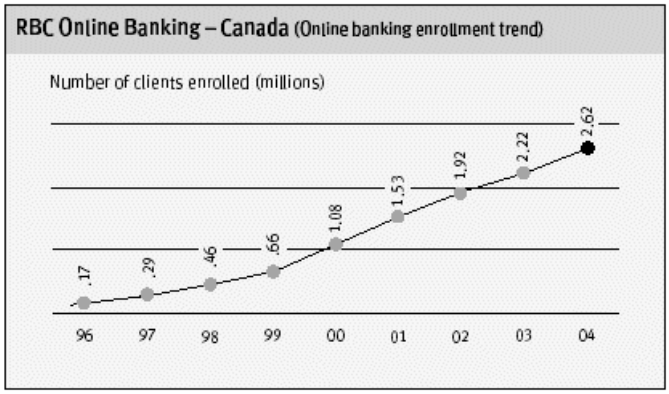
Selected highlights (1)

(C$ millions, except percentage amounts)	% change	2004	2003
Total revenues	3%	**$ 6,325**	$ 6,165
Average residential mortgages (2)	11	**80,300**	72,600
Average personal loans	12	**27,000**	24,200
Average personal deposits	5	**87,700**	83,700
Average business loans and acceptances	2	**33,900**	33,300
Average business deposits	8	**34,300**	31,700
Average card balances	14	**7,900**	6,900
Card spending volumes	16	**34,900**	30,200

Number of:			
Employees (full-time equivalent)	1	**31,244**	30,865
Automated banking machines	(2)	**3,999**	4,062
Branches	(1)	**1,098**	1,104
Online banking clients	18	**2,619,800**	2,219,100

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

(2) Includes loans originated and serviced by RBC Royal Bank that have been securitized.



RBC BANKING – UNITED STATES

Our personal and commercial banking business in the United States is conducted through RBC Centura. Headquartered in Rocky Mount, North Carolina, RBC Centura serves individual and business clients in the Southeast United States.

In 2004, RBC Centura expanded its reach by acquiring the 13 Florida branches of Ohio-based Provident Financial Group Inc. We also opened 21 new branches in Atlanta, various locations in Florida, and other high-growth markets. We plan to further optimize our branch network by continuing to open new branches selectively in high-growth markets and also by closing 10 low-return branches in 2005. In addition, we strengthened our product capabilities, including the Home Equity Line of Credit, Homebuyer Rewards package and RBC Access USA cross-border services, and expanded our sub-segment expertise focused on health care professionals, executives, and Canadian "Snowbirds" and other cross-border clients. RBC Builder Finance, a financing division of RBC Centura serving home builders and developers, increased its new loan commitments by 39% in 2004, leveraging its 35 loan production offices serving over 90 markets across the United States.

The U.S. platform of RBC Banking also includes RBC Mortgage, a mortgage originator increasingly focused on new purchase business versus refinancings. As part of the business realignment, we are in the process of closing 38 of RBC Mortgage's 213 branches, with an additional 9 branches to be closed in 2005. In January 2005, the Chicago headquarters of RBC Mortgage will be closed and the operations transferred to its Houston office, which was the base of Sterling, acquired in September 2003.

In 2004, RBC Mortgage strengthened its loan origination processes and technology and extended its reach through new Affiliated Business Arrangements, joint ventures with home builders and realtors to provide new home mortgages directly to homebuyers.

Financial performance

Total revenues declined $261 million or 20% from last year. The strengthening of the Canadian dollar relative to the U.S. dollar (which reduced the translated value of revenues) accounted for $93 million of the decline. In U.S. dollars, total revenues decreased US$114 million or 13%, with RBC Centura and RBC Mortgage down US$48 million or 7% and US$66 million or 36%, respectively. Strong loan growth at RBC Centura was more than offset by lower returns in its investment portfolio due to lower yields as the portfolio was reinvested into higher-quality but lower-yielding instruments at the end of 2003. RBC Mortgage revenue was negatively affected by lower margins and an industry-wide decline in origination volumes from exceptionally high levels in 2003 when low interest rates drove a mortgage refinance boom. These declines were partially offset by the inclusion of a full year of revenues for Sterling in 2004 compared to one month of revenues in 2003.

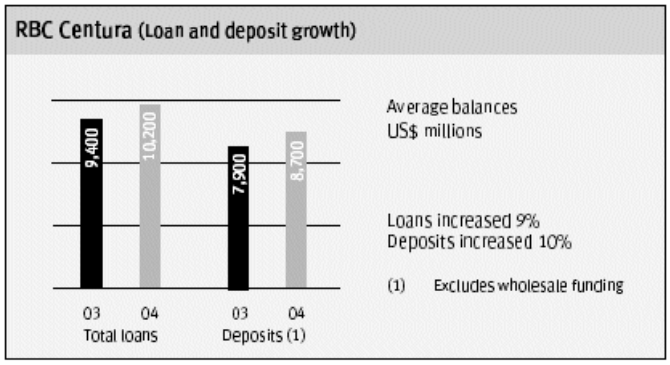
Selected highlights (1)

(C$ millions, except percentage amounts)	% change	2004	2003
Total revenues	(20)%	**$ 1,024**	$ 1,285
Average residential mortgages	(10)	**3,800**	4,200
Average personal loans	3	**3,400**	3,300
Average personal deposits	–	**8,000**	8,000
Average business loans and acceptances	3	**9,000**	8,700
Average business deposits	3	**6,000**	5,800
Average card balances	–	**100**	100
Card spending volumes	–	**400**	400
Mortgage originations ($ billions)	(47)	**22.5**	42.6
Number of:			
Employees (full-time equivalent)	–	**5,430**	5,444
Automated banking machines	9	**304**	279
Branches (2)	14	**275**	242
Online banking clients (3)	(33)	**70,300**	104,500

(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.

(3) Certain inactive clients were not transferred to a new technology platform in 2004



RBC BANKING – 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.

Financial performance

Total revenues fell $15 million or 7% from last year, due to the strengthening of the Canadian dollar relative to the U.S. dollar and certain Caribbean currencies.

Selected highlights

(C$ millions, except percentage amounts)	% change	2004	2003
Total revenues	(7)%	**$ 208**	$ 223
Number of:			
Employees (full-time equivalent)	4	**1,210**	1,166
Automated banking machines	15	**69**	60
Branches	–	**43**	43

RBC INVESTMENTS

Overview

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.

Effective November 1, 2004, Canadian operations within RBC Investments became part of the new Canadian personal and business segment while the U.S. and international operations became part of the new U.S. and international segment.

Industry profile

Wealth management remains a highly competitive business with numerous large and boutique firms serving the North American market. Volatile capital markets and the rising costs of managing the regulatory and compliance requirements of the industry continue to encourage consolidation. However, consolidation in the Canadian mutual fund industry has not significantly altered the competitive landscape as players continue to expand their distribution channels.

Our strengths

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

2005 outlook

Based on our expectation that in both Canada and the U.S., investor confidence and capital markets performance will continue to improve modestly, we expect moderate revenue growth in all of our businesses in 2005, and expense growth below that of revenue growth in light of our cost-containment efforts.

Financial performance

Net income increased $80 million or 20% in 2004, primarily driven by improved earnings in U.S. and Canadian brokerage and asset management businesses, as well as from Global Private Banking. These increases more than offset the effect of the strengthening of the Canadian dollar relative to the U.S. dollar in 2004, which reduced net income by $29 million. U.S. net income was up $31 million from a year ago, with significant growth in transaction-based and asset value based fee revenues in the full-service brokerage business and lower retention compensation costs at RBC Dain Rauscher.

Total revenues increased $222 million or 6%, reflecting higher transaction-based and asset value based fee revenues from the U.S. and Canadian brokerages and larger asset balances in the asset management businesses. This growth more than offset the impact of the strengthening of the Canadian dollar relative to the U.S. dollar, which reduced the translated value of U.S. dollar-denominated revenues by $188 million.

The $102 million or 4% increase in non-interest expense largely reflected higher variable compensation costs associated with revenue growth and pension, postretirement and benefit costs. These increases were partly offset by a $147 million reduction in the translated value of U.S. dollar-denominated expenses due to the stronger Canadian dollar, and a $32 million decline in retention compensation costs at RBC Dain Rauscher.

ROE improved 350 basis points to 18.5%, reflecting higher earnings in 2004.

Results

(C$ millions, except percentage amounts)	% change	2004	2003
Net interest income	2%	**$ 429**	$ 419
Non-interest income	7	**3,322**	3,110
Total revenues	6	**3,751**	3,529
Provision for credit losses			
Specific	n.m.	**4**	(2)
Total	n.m.	**4**	(2)
Non-interest expense	4	**3,014**	2,912
Business realignment charges	n.m.	**17**	–
Net income before income taxes	16	**716**	619

Income taxes	8	**226**	209
Net income	20%	**$ 490**	$ 410
U.S. net income	36%	**$ 118**	$ 87
Net income as a % of total group net income	300 bp	**17%**	14%
ROE	350 bp	**18.5%**	15.0%
Average allocated common equity (1)	(2)%	**2,600**	2,650
Number of employees (full-time equivalent)	3%	**10,748**	10,464

(1) Calculated using methods intended to approximate the average of the daily balances for the period. Attributed to the segment as discussed on page 29A.

n.m. not meaningful

REVIEW BY DIVISION – RBC INVESTMENTS

CANADA

Wealth Management Canada

This group includes Dominion Securities (full-service brokerage) and Action Direct (self-directed brokerage), which serve investors requiring advisor-based comprehensive financial solutions and self-managed investors, respectively. 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, Private Counsel, Trust Services and Private Banking serve high net worth clients across Canada, offering a relationship management approach for clients in need of sophisticated financial solutions. There are more than 25 investment counsellors, 65 trust officers and 50 private bankers in locations across the country. Financial Planning serves more than 381,000 branch-based clients with over $56 billion in investment and credit balances. There are approximately 1,000 relationship financial planners and more than 480 commission-based investment and retirement planners who are financial planners and also licensed mutual fund salespeople. Financial Planning and Private Banking are businesses operated jointly with RBC Banking, and RBC Investments reports the financial results from its share of these businesses within Wealth Management Canada.

Global Asset Management

This unit is responsible for our proprietary asset management business in Canada and the United States. In Canada, RBC Asset Management directly manages more than $49 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 and balanced funds and Canadian, U.S. and global equity funds, as well as alternative investments. RBC Asset Management enjoyed industry-leading total and long-term net sales in 2004 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 continued gains in market share. In the U.S., Voyageur Asset Management achieved a record US$25 billion in assets under management (AUM) as at October 31, 2004.

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 over 1,750 financial consultants serving individual clients from coast to coast and a fixed income business with more than 375 investment bankers, sales representatives and traders serving institutional and retail clients nationwide. In addition, we have a clearing and execution services group that serves small to mid-sized independent broker-dealers and institutions.

INTERNATIONAL

Global Private Banking

Operating under the brand name Royal Bank of Canada Global Private Banking, this division provides private banking, trust, investment management and investment advisory solutions to high net worth clients in more than 100 countries from 24 offices around the world. Focused on clients with assets of more than US$1 million, Global Private Banking provides an integrated offering based on the foundations of strong personal relationships, expertise, advice and choice.

Financial performance by division

Higher transaction-based and asset value based fee revenues largely drove the $169 million or 14% increase in revenues from the wealth management businesses in Canada, reflecting a strong Canadian registered retirement savings plan (RRSP) season in 2004 and the benefits of market appreciation. Global Asset Management revenues were higher as a result of strong sales and capital appreciation in mutual funds and managed portfolios. RBC Dain Rauscher revenues increased $15 million or 1% despite the strengthening of the Canadian dollar relative to the U.S. dollar, as performance in both its full-service brokerage and fixed income businesses improved. Global Private Banking revenues grew $11 million mainly due to stronger brokerage activities.

The assets under administration (AUA) of the wealth management businesses in Canada improved 8% from 2003 as a result of capital market appreciation early in 2004 as well as strong sales. RBC Dain Rauscher's AUA balance grew 5% in 2004 as a result of market appreciation, which more than offset 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$14 billion or 14%. Global Private Banking's personal AUA was also affected by the stronger Canadian dollar, which lowered the translated value of U.S. dollar-denominated assets. Institutional AUA declined 33% primarily due to the loss of a large client in the second quarter of 2004.

Higher AUM balances were primarily a result of strong mutual fund sales and capital market appreciation. During the year, $1 billion of personal AUM was transferred to AUA due to a change in client strategy.

Total revenues

(C$ millions, except percentage amounts)	% change	2004	2003
RBC Dain Rauscher	1%	**$1,628**	$1,613
Wealth Management Canada	14	**1,339**	1,170
Global Private Banking	3	**421**	410

Global Asset Management	7	**363**	340
Other	n.m.	**—**	(4)
	6%	**$3,751**	$3,529

n.m. not meaningful

Assets under administration (AUA)

(C$ millions, except percentage amounts)	% change	2004	2003
Personal			
Wealth Management Canada	8%	**$147,585**	$136,910
RBC Dain Rauscher	5	**135,070**	128,150
Global Private Banking	1	**50,320**	49,590
	6	**332,975**	314,650
Institutional – Global Private Banking	(33)	**52,170**	77,520
	(2)%	**$385,145**	$392,170

Assets under management (AUM)

(C$ millions, except percentage amounts)	%change	2004	2003
Mutual funds	9%	**$57,520**	$52,620
Institutional	3	**20,220**	19,690
Personal	(10)	**15,240**	17,010
	4%	**$92,980**	$89,320

RBC INSURANCE

Overview

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.

Effective November 1, 2004, our global insurance businesses, which Include Canadian, U.S. and international operations, became part of the new Canadian personal and business segment.

Industry profile

The Canadian life insurance industry is dominated by three large Canadian companies and generates almost $50 billion in premiums annually. The property and casualty market in Canada is more fragmented. 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 continues to be a growth 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 smaller and niche companies.

Key industry trends that continue to affect the insurance sector include ongoing consolidation, further convergence of banking, insurance and investment products, increased government regulation and oversight as well as the impact of technology. In addition, consumer product preferences are shifting to reflect demographic and economic changes and are also creating new distribution opportunities.

Our strengths

- A diverse set of products designed to meet a wide range of consumer needs
- Market leadership in a number of Canadian insurance markets, including travel and individual living benefits insurance
- Multiple distribution channels, which are supported by strong infrastructure and sales expertise
- Access, as part of RBC Financial Group, to a broad range of distribution channels, client bases and financial services as well as the benefit of a strong brand and infrastructure
- An integrated global insurance operation

2005 outlook

Performance in our business is influenced by our policyholder claims experience, geopolitical events, the general economic and interest rate environment, and credit risk considerations related to our investment portfolios. Our outlook is for revenue growth to continue, driven by demographic trends, reasonable economic growth in Canada and the U.S., and new products and markets with a particular focus on wealth management and living benefits solutions. We will also focus on opportunities for efficiencies from integrating insurance operations with RBC's Canadian retail businesses as well as increased opportunities in the Canadian group and living benefits markets, as a result of our acquisition in May 2004 of UnumProvident, a subsidiary of UnumProvident Corporation.

Financial performance

Net income was up $40 million or 19% from a year ago, reflecting higher earnings from the Canadian life and health operations (which now include UnumProvident), the home and auto business and the U.S. operations. Despite growth in the reinsurance operations, earnings from this business were relatively unchanged from last year, as a result of higher claims costs in the property reinsurance business associated with the recent hurricanes in the Southeast United States and the Caribbean.

As of August 1, 2004, the acquired business of UnumProvident, which consists predominantly of living benefits products for individuals and groups, has been integrated with the existing Canadian life and health operations.

Our 2003 results included a significant block of reinsurance business that was not renewed in 2004. This block of business contributed $182 million to total revenues and $183 million to policyholder benefits, claims and acquisition expenses, reducing net income by $1 million in 2003.

Results

(C$ millions, except percentage amounts)	% change	2004	2003
Non-interest income			
Net earned premiums (1)	21%	$2,382	$1,965
Investment income	37	408	298
Fee income	(14)	80	93
Insurance premiums, investment and fee income	22	2,870	2,356
Insurance policyholder benefits, claims and acquisition expense	25	2,124	1,696

Non-interest expense	6	487	460
Business realignment charges	n.m.	8	–
Net income before income taxes	26	251	200
Income taxes	(69)	(5)	(16)
Net income	19%	$ 256	$ 216
U.S. net (loss) income	(250)	$ (6)	$ 4
Net income as a % of total group net income	200bp	9%	7%
ROE	(120)bp	23.8%	25.0%
Gross premiums and deposits	16%	$3,185	$2,753
Average assets (2)	39	9,300	6,700
Average allocated common equity (2),(3)	24	1,050	850
Number of employees (full-time equivalent)	24%	3,575	2,883

(1) Net of reinsurance premiums.

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

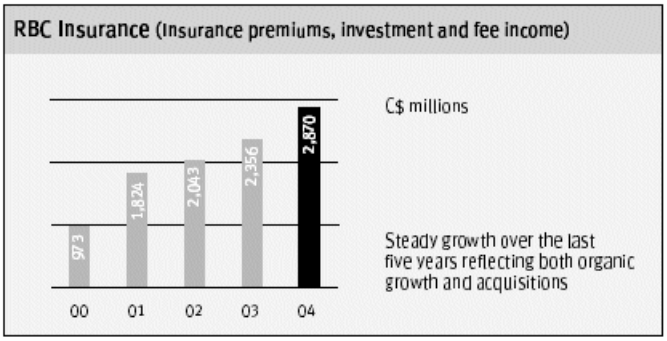
(3) Attributed to the segment as discussed on page 29A.

n.m. not meaningful

Insurance premiums, investment and fee income was up $514 million or 22% over a year ago, primarily reflecting growth in group, living benefit and universal life product sales in the Canadian life and health operations (principally from UnumProvident), the home and auto business and the U.S. fixed annuity business. This growth more than offset the loss of revenues of $182 million from the non-renewed block of reinsurance business. As a result of the growth mentioned above, policyholder benefits, claims and acquisition expense increased $428 million or 25% from a year ago, despite a reduction related to the non-renewed block of reinsurance business, which had contributed $183 million to policy holder benefits, claims and acquisition expense in 2003.

Non-interest expense increased $27 million or 6% from a year ago, largely reflecting an increase in the number of employees to support business growth, including that from the UnumProvident acquisition.

Despite the growth in earnings, ROE decreased to 23.8%, reflecting the higher average allocated common equity attributed to this segment primarily resulting from the acquisition of UnumProvident.



REVIEW BY DIVISION–RBC INSURANCE

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, we distribute life and health insurance products through more than 17,000 independent brokers affiliated with producer groups, financial planning firms and stock brokerage firms, as well as through direct sales and a network of approximately 500 career sales representatives. In the U.S., we offer life and health insurance, annuities and related personal financial security solutions to consumers through regional and independent broker-dealers, national marketing organizations, banking and investment channels, the Internet, other direct marketing channels and a field force of over 400 full-time sales agents.

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. Our travel insurance business provides a wide range of products and services, including trip cancellation, interruption and emergency assistance services, to clients in Canada and the United States. These products are distributed through a network of travel agencies, as well as over the Internet and, in Canada, through bank channels and brokers.

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.

FEE BUSINESSES

We are involved in a number of key insurance and related activities that generate fee and other income, including travel assistance services, credit and trade 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 credit and trade 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, through Liberty Insurance Services Corporation (LIS), include the Business Process Outsourcing and Software Solutions divisions and provide underwriting, billing, collection claims processing and web-enabled software for life, health, annuity and reinsurance administration. On November 23, 2004, we announced that IBM had agreed to acquire LIS. The transaction is expected to close by December 31, 2004, subject to the satisfaction of customary conditions including the receipt of regulatory approvals. In addition, IBM and RBC Insurance have agreed to enter into a long-term agreement for IBM to perform key business processes for RBC Insurance's U.S. operations, including contact centre management, policy administration, claims management and payment receipt and reconciliation.

Financial performance by division

Life:

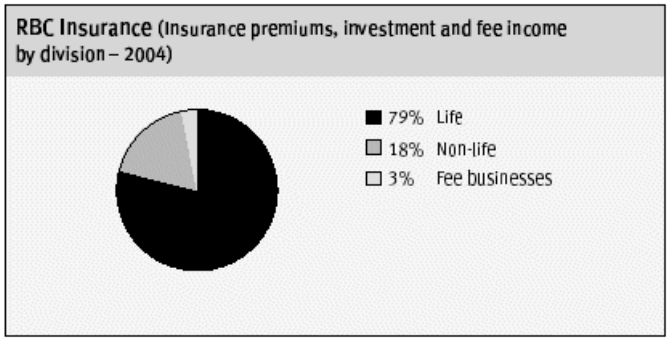
Growth in insurance premiums, investment and fee income of $638 million was driven by the Canadian life and health operations (principally From UnumProvident) and U.S. operations. The addition of the group and living benefits product segment, along with strong universal life sales in the Canadian life and health business and strong fixed annuity sales in the U.S., drove the increase from last year. Similarly, the 11% increase in the number of Canadian policies and certificates reflects growth in the Canadian life and health operations (which now includes UnumProvident), which more than offset the decline in the number of U.S. policies in force due to increased policy surrenders. Average assets increased 52%, reflecting the UnumProvident acquisition as well as growth in our U.S. fixed annuity business. The number of sales agents decreased 33%, reflecting our continued efforts to improve productivity in this distribution channel.

Non-life:

Continued growth in the number of new home and auto policies in force Reflecting both sales to new customers and strong retention of existing policyholders from the home and auto business drove the $81 million increase in insurance premiums, investment and fee income.

Fee businesses:

Our 2003 revenues included a significant block of reinsurance business that was not renewed in 2004. This block of business contributed $182 million to insurance premiums, investments and fee income. The decrease in average assets also reflects the non-renewed reinsurance contract. Additionally, U.S. outsourcing revenue declined as there were fewer policies under administration and as several contracts were renewed at lower prices. As discussed on page 36A, we announced the sale of the LIS fee businesses in the U.S., subsequent to the end of fiscal 2004.



Selected highlights

(C$ millions, except percentage amounts)	% change	2004	2003 (1)
Life			
Insurance premiums, investment and fee income	39%	**$2,263**	$1,625
Average assets (2)	52	**8,200**	5,400
Number of:			
Life and health policies in force and Certificates in Canada (thousands)	11	**4,276**	3,850
Life policies in force in the U.S. (thousands)	(10)	**1,976**	2,185
Sales agents (U.S. and Canada)	(33)	**847**	1,268
Non-life			
Insurance premiums, investment and fee income	19%	**$ 517**	$ 436
Average assets (2)	–	**900**	900
Number of:			
Home and auto – personal lines policies in force (thousands)	46	**193**	132
Travel – coverages (thousands)	(11)	**2,121**	2,388
Fee businesses			
Insurance premiums, investment and fee income	(69)%	**$ 90**	$ 295
Average assets (2)	(50)	**200**	400
Number of:			
Assistance services – calls (thousands)	14	**766**	670
Policies under administration in the U.S. (thousands)	(9)	**3,556**	3,925

(1) The Canadian operations reported 13 months of results in 2003 as a result of a change in its reporting period from September 30 to October 31 to be consistent with our fiscal year. The net impact on our financial results in 2003 due to the extra month was immaterial.

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

RBC CAPITAL MARKETS

Overview

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.

Effective November 1, 2004, the new global capital markets segment includes RBC Capital Markets as well as the business serving larger commercial clients that is being transferred from RBC Banking. As part of the realignment, we are also reorganizing our business divisions within the new segment. The operations of Global Treasury Services and Global Financial Products (described on page 38A) will be merged into a new Global Markets division, which will include all of our debt market, money market, foreign exchange, derivative, alternative assets and proprietary trading businesses. Global Investment Banking will be combined with our equity sales and trading capabilities into Global Investment Banking Equity Markets. The newly formed Global Research division will combine Our economics and research staff in all product areas, while Global Credit will remain relatively unchanged.

Industry profile

The Canadian wholesale financial services market is mature and, as a result, many Canadian firms are seeking growth opportunities outside 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. 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
- Demonstrated capabilities in specialized markets including alternative assets, structured products and proprietary trading

2005 outlook

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. Our expectation is that capital markets performance will improve modestly in 2005, resulting in moderate revenue growth. We also expect to maintain our discipline with respect to credit risk, and refocus our attention on cost control.

Financial performance

Full year net income increased $117 million or 23% from last year due to solid performance in investment banking, higher returns from private debt and equity investments and a significantly lower provision for credit losses.

Total revenues increased $100 million or 4%, reflecting higher returns on private debt and equity investments and higher investment banking revenues. These increases more than offset a $118 million reduction in the translated value of U.S. dollar-denominated revenues as a result of the stronger Canadian dollar in 2004 and lower total trading revenues, primarily in the fixed income businesses. Trading revenues recorded in net interest income increased $227 million, while trading revenues recorded in non-interest income declined $304 million.

Non-interest expense was up $346 million or 21% compared to last year. The increase in non-interest expense reflects a $74 million after-tax charge relating to Rabobank settlement costs net of a related reduction in compensation, higher variable compensation, legal costs associated with ongoing Enron litigation and costs relating to the relocation of RBC Capital Markets' London office. These increases more than offset the $65 million reduction in the translated value of U.S. dollar-denominated expenses due to the stronger Canadian dollar.

The $272 million decline in the provision for credit losses reflects better credit conditions, higher recoveries of credit losses and an $85 million reversal of the general allowance in 2004.

ROE improved 470 basis points to 17.7% due to higher net income as well as a $300 million reduction in average allocated common equity attributed to this segment, as discussed on page 29A.

Results

(C$ millions, except percentage amounts)	% change	2004	2003
Net interest income	64%	**$ 679**	$ 415
Non-interest income	(7)	**2,077**	2,241
Total revenues	4	2,756	2,656
Provision for credit losses			
Specific	(96)	8	195
General	n.m.	(85)	–
Total	(139)	**(77)**	195
Non-interest expense	21	**2,017**	1,671
Business realignment charges	n.m.	**25**	–
Net income before income taxes	–	**791**	790
Income taxes	(41)	**164**	278
Non-controlling interest	(50)	**2**	4
Net income	23%	**$ 625**	$ 508
U.S. net income	(28)	**$ 87**	$ 120
Net income as a % of total group net income	500bp	**22%**	17%
ROE	470bp	**17.7%**	13.0%
Average assets (1)	10%	**218,300**	198,500
Average loans and acceptances (1)	(5)	**59,400**	62,700
Average deposits (1)	9	**80,700**	74,000
Average allocated common equity (1), (2)	(8)	**3,500**	3,800
Credit information			
Impaired loans	(29)%	**$ 265**	$ 373
Net write-offs	7	**197**	184
Net write-offs as a % of average loans and acceptances	4bp	**.33%**	.29%
Number of employees (full-time equivalent)	6%	**3,084**	2,912

(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 29A.

n.m. not meaningful

REVIEW BY DIVISION — RBC CAPITAL MARKETS

GLOBAL INVESTMENT BANKING

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 sponsor/Private Equity investor coverage.

In Canada, we 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 are focused on select industries — specifically technology, telecommunication, health care, energy, consumer products, mid-sized financial institutions and real estate. We differentiate ourselves in 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. Our product offering includes leading-edge electronic trading systems as clients are increasingly demanding access to 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. Alternative Investments was formed in June 2002 with a mandate to expand our wholesale asset management capabilities, which today includes structuring hedge fund transactions. In 2004, this business was moved into the Global Financial Products division. The alternative asset business provides non-traditional investment opportunities to high net worth individuals, corporations and institutional clients. These investment options include hedge funds, and can extend to other vehicles such as Collateralized Debt Obligations.

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, Sydney, Tokyo, Singapore and our recently opened Hong Kong office. Global Treasury Services continues to lead in technological development of e-trading solutions; this year, MM Direct, our electronic deposit system, joined FX Direct, expanding our e-trading platform.

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 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.

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.

Financial performance by division

Revenues from Global Financial Products were up $150 million or 14% reflecting higher returns from private debt and equity investments and strong revenues from structured products. Higher revenues were also achieved in the alternative assets business reflecting higher asset levels, while revenues from proprietary equity trading activities were lower than last year, largely due to the appreciation of the Canadian dollar relative to the U.S. dollar. Global Investment Banking revenues were up $84 million or 15% due to higher levels of equity and debt underwriting in Canada and the U.S., as well as higher fund of fund distributions in 2004. Global Equity revenues decreased $4 million from 2003 reflecting the Impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated revenues, which more than offset higher revenues from equity sales in Canada, and from new equity issues globally. Global Treasury Services revenues were lower by $29 million or 5% in 2004, despite higher revenues from derivatives and commodities products during the year, primarily due to lower results in the foreign exchange sales and trading business, which was negatively affected by the strengthening of the Canadian dollar throughout 2004. Revenues from Global Credit were down $101 million reflecting our continued intentional reduction of the non-strategic loan portfolio.

Overall, revenues in each of the divisions 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 $118 million.

The increase in average assets in Global Financial Products related to growth in the securities inventories of the global debt markets and global equity derivatives trading books and the related securities borrowing activities. The higher trading securities inventories also reflected continued growth in the hedge fund business. The growth in average assets in Global Investment Banking was related to an increase in non-investment grade loans to clients in the United States. Global Treasury Services recorded growth in average assets primarily in the equity and securities finance businesses. The average of the derivative-related amounts relating to Global Treasury Services and Global Financial Products derivative trading activity declined moderately during the year. The year-over-year decrease in average assets for Global Credit of $1.7 billion or 35% is a result of the intentional reduction of the non-strategic loan portfolio as well as the effect of the stronger Canadian dollar on the translated value of U.S. dollar-denominated assets.

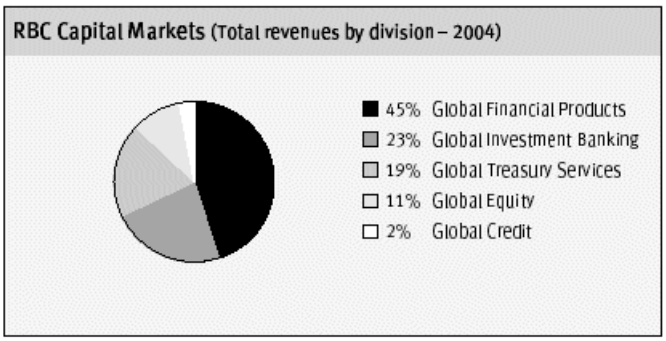
Total revenues

(C$ millions, except percentage amounts)	% change	2004	2003
Global Financial Products	14%	**$1,240**	$1,090
Global Investment Banking	15	**638**	554
Global Treasury Services	(5)	**524**	553
Global Equity	(1)	**295**	299
Global Credit	(63)	**59**	160
	4%	**$2,756**	$2,656

Average assets (1)

(C$ millions, except percentage amounts)	% change	2004	2003
Global Financial Products	17%	**$121,100**	$103,100
Global Investment Banking	6	**5,500**	5,200
Global Treasury Services	4	**88,100**	84,700
Global Equity	(33)	**400**	600
Global Credit	(35)	**3,200**	4,900
	10%	**$218,300**	$198,500

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



RBC GLOBAL SERVICES

Overview

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 Institutional & Investor Services, Global Financial Institutions and Treasury Management & Trade, which are described in detail on pages 40A–41A. RBC Global Services also includes RBC's 50% interest in the Moneris Solutions joint venture with Bank of Montreal for merchant card processing.

Effective November 1, 2004, the Institutional & Investor Services and Global Financial Institutions divisions of RBC Global Services became part of the new global capital markets segment. The Treasury Management & Trade division became part of the new Canadian personal and business segment.

Industry profile

The transaction processing businesses are highly competitive and relatively mature in the Canadian market. Scale is a critical success factor and is required to support the significant investment in technology required to introduce new products and services and enhance operational efficiencies. The quality of client service and strength of client relationships are also key differentiating factors in retaining and attracting new business. Monoline specialists, with domestic and global capability, compete against traditional financial institutions. Market consolidation continued in 2004, particularly in merchant card processing and custody, which are businesses requiring global capability and scale.

Our strengths

- We have a market share leadership position in Canada in these businesses as measured by assets under administration (AUA), transactions processed 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 Investor* magazine's 2004 Global Custody Survey, which ranked us as the best overall global custodian; Stewart and Associates' 2004 Survey of Bank Fees, which rated our cash management services first overall in Canada for quality of service for the fifth year in a row; and our recognition by *Global Finance* magazine as best trade finance bank in Canada for 2004
- We continue to develop and deploy new technology and client service solutions

2005 outlook

Our revenue across all divisions is primarily derived from fee-based services and transaction fees. Interest earned on deposit and cash balances, foreign exchange fees and fees earned on client assets are variable sources of revenue that are influenced by capital markets performance and the interest rate environment. For 2005, we anticipate that our net interest income should remain stable as interest rates are expected to stay at current levels through much of the year. We expect modestly rising capital markets in 2005 to have a favourable impact on our revenue streams particularly in the Institutional & Investor Services division.

Financial performance

Full year net income was up $47 million or 27%, reflecting strong earnings growth in all divisions, as revenues grew significantly more than expenses, and also reflecting a reversal of the general allowance and recoveries in the provision for credit losses totalling $19 million.

Total revenues increased $74 million or 7%. The increase in revenues was largely due to growth in fee-based revenues in Institutional & Investor Services as well as higher net interest income driven by deposit balance growth in Global Financial Institutions and Treasury Management & Trade, which more than offset the adverse impact of a lower interest rate environment. In addition, stronger earnings from Moneris Solutions also contributed favourably to revenue growth.

Non-interest expense was $24 million or 3% higher in 2004, largely due to higher pension and postretirement benefit and other compensation costs, as well as increased costs incurred to support the growth in business activity.

The provision for credit losses decreased $21 million primarily due to a reversal of the general allowance for credit losses of $14 million in the first quarter and the sale of credit facilities in the second and fourth quarters of 2004.

ROE improved 760 basis points in 2004 to 35.1% as a result of the higher earnings.

Results

(C$ millions, except percentage amounts)	% change	2004	2003
Net interest income	7%	**$ 177**	$ 166
Non-interest income	8	**887**	824
Total revenues	7	**1,064**	990
Provision for credit losses			
Specific	n.m.	**(5)**	2
General	n.m.	**(14)**	–
Total	n.m.	**(19)**	2
Non-interest expense	3	**738**	714
Business realignment charges	n.m.	**3**	–
Net income before income taxes	25	**342**	274
Income taxes	22	**118**	97
Net income	27%	**$ 224**	$ 177
U.S. net income	–	**$ 8**	$ 8

Net income as a % of total group net income	200bp	**8%**	6%
ROE	760bp	**35.1%**	27.5%
Average allocated common equity (1)	–	**650**	650
Credit information			
Impaired loans	n.m.	**$ –**	$ 5
Net write-offs	60%	**8**	5
Net write-offs as a % of average loans and acceptances	26bp	**.62%**	.36%
Number of employees (full-time equivalent)	(2)%	**2,504**	2,550

(1) Calculated using methods intended to approximate the average of the daily balances for the period. Attributed to the segment as discussed on page 29A.

n.m. not meaningful

REVIEW BY DIVISION

INSTITUTIONAL & INVESTOR SERVICES

Institutional & Investor Services is Canada's largest custodian as measured by AUA, and a provider of investment administration services, including foreign exchange and securities lending, to corporate and institutional investors worldwide. We operate from 12 locations through- out the world, with a global custody network spanning 79 markets.

GLOBAL FINANCIAL INSTITUTIONS

A comprehensive range of correspondent banking services is provided to banks globally and to broker-dealers within Canada, including cash management, payments and clearing.

TREASURY MANAGEMENT & TRADE

Treasury Management & Trade provides cash management, payment and trade services to corporate, business and public sector markets in Canada. Our trade team provides Canadian and foreign importers and exporters with a variety of trade products, services and counsel. Our cash management group provides a full range of solutions to clients including disbursements, collections and information products. Through our web-based delivery platform, RBC Express, clients have access to an increasing number of cash management and payment services. Our payments centre processes a high volume of domestic and international payment services for clients and is the largest processor of Canadian dollar payments in Canada. Through Moneris Solutions we provide merchants with debit and credit card transaction processing services.

Financial performance by division

Institutional & Investor Services:

Total revenues increased $38 million or 9% driven by strong growth in foreign exchange and securities lending fees. The higher AUA balance in 2004 reflects the positive impact of new business and the overall strengthening of global capital markets in 2004.

Global Financial Institutions:

Total revenues increased by $4 million or 4% due to growth in net interest income driven by higher deposit balances, which more than offset the adverse impact of the continued low interest rate environment.

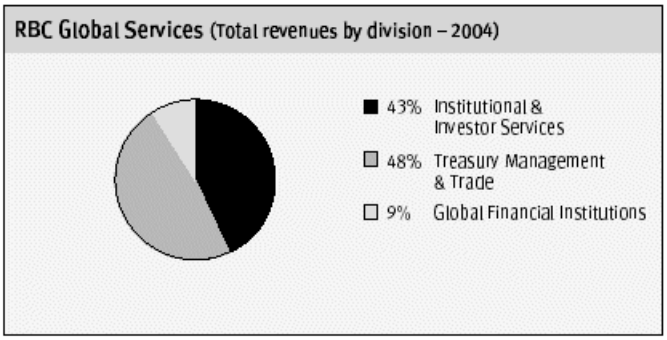
Treasury Management & Trade:

Total revenues increased $32 million or 7% primarily due to higher earnings from Moneris Solutions, which benefited from higher transaction volumes in 2004,and to higher net interest income. The 11% growth in average deposits resulted in an increase in net interest income, which more than offset the adverse impact of the continued low interest rate environment.

Selected highlights

(C$ millions, except percentage amounts)	% change	2004	2003
Institutional & Investor Services			
Total revenues	9%	**$ 455**	$ 417
Assets under administration	9	**1,223,000**	1,122,000
Global Financial Institutions			
Total revenues	4%	**$ 100**	$ 96
Average assets (1)	–	**1,400**	1,400
Average deposits (1)	29	**2,600**	2,020
Treasury Management & Trade			
Total revenues	7%	**$ 509**	$ 477
Average deposits (1)	11	**7,500**	6,740
Payment volumes	7	**8,188**	7,634
Payment errors (per 100,000 payments)	(10)	**2.6**	2.9

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



OTHER

Overview and financial performance

The Other segment consists mainly of the Information Technology, Corporate Treasury and Corporate Resources functional groups, which are largely designed to manage and pass through cost and revenue items in their areas of responsibility.

Financial performance

Net loss for the Other segment was $70 million compared to net income of $133 million a year ago, reflecting a $91 million decrease in revenues

and an $11 million increase in expenses. Also included in the net loss for 2004 were business realignment charges of $64 million.

The decline in revenues included a $26 million charge for equity losses on investments and a $26 million writedown of an investment in AOL Canada (a similar writedown was also recorded in RBC Banking). In addition, we incurred $68 million of consolidation adjustment charges to eliminate intercompany underwriting fees, trading gains and losses on Royal Bank of Canada securities held by subsidiaries and to partially offset a gain recorded on the sale by RBC Centura of its merchant acquiring card portfolio to Moneris Solutions in light of our 50% ownership interest in the joint venture.

The increase in non-interest expenses was largely due to costs associated with a processing disruption in the third quarter. The processing disruption, which occurred during a programming update to one of our computer systems, affected our ability to promptly reflect some transactions in client account balances and affected most of our business segments.

Results

(C$ millions, except percentage amounts)	% change	2004	2003
Net interest income	n.m.	**$ (109)**	$ 50
Non-interest income	41%	**232**	164
Total revenues	(43)	**123**	214
Provision for credit losses	n.m.	**(36)**	(28)
Non-interest expense	n.m.	**13**	2
Business realignment charges	n.m.	**64**	–
Net income before income taxes	(66)	**82**	240
Income taxes and non-controlling interest	42	**152**	107
Net (loss) income	(153)	**$ (70)**	$ 133
U.S. net (loss)	n.m.	**$ (12)**	$ (2)
Net (loss) income as a % of total group net income	(600)bp	**(2)%**	4%
ROE	(820)bp	**(2.6)%**	5.6%
Average allocated common equity (1)	33%	**3,000**	2,250

(1) Attributed to the segment as discussed on page 29A.

n.m. not meaningful

FINANCIAL PRIORITY: REVENUE GROWTH AND DIVERSIFICATION

Highlights

- Revenues up $703 million or 4%
- Net interest income up $97 million or 1%
- Net interest margin of 1.56%, down 10 basis points
- Non-interest income up $606 million or 6%
- Non-interest income 63% of total revenues, up 1% from 2003

Table 4 Total revenues

(C$ millions)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Net interest income	**$ 6,693**	$ 6,596	$ 6,935	**$ 97**	**1%**
Non-interest income	**11,428**	10,822	10,320	**606**	**6**
Total revenues	**$18,121**	$17,418	$17,255	**$ 703**	**4%**

Total revenues were up $703 million or 4% from 2003, reflecting higher insurance revenues (which now include Unum Provident),higher capital markets-related revenues other than trading (mutual fund revenues, securities brokerage commissions, underwriting and other advisory fees, investment management and custodial fees), and strong growth in loans and deposits which resulted in higher net interest income. These factors more than offset a $550 million reduction due to the strengthening of the Canadian dollar and a $169 million decline in total trading revenues (including a $396 million decline in non-interest income, which more than offset a $227 million increase in net interest income).

Outlook

We are targeting revenue growth of 6–8% in fiscal 2005 based on our expectations of improved results from U.S. banking operations, the full year impact of the Unum Provident acquisition and results from our Client First initiatives. We also expect that Canadian economic growth will be moderately higher in 2005 than in 2004, capital markets performance will improve modestly and the strengthening of the Canadian dollar exchange rate relative to the U.S. dollar will reduce our year-over-year revenues less than in 2004.

Net interest income

Net interest income was up $97 million or 1% from 2003, reflecting a $227 million increase in trading revenues included in net interest income primarily due to dividends earned as part of our arbitrage trading strategies, and average loan and deposit growth of 7%,which was partially offset by the impact of narrower margins.

As shown in Table 7 on page 44A, while higher asset volumes (including residential mortgage, personal, credit card, and business and government loans) added $434 million to net interest income in 2004, changes in rates received on assets and paid on liabilities reduced net interest income by $337 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)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Average assets (1)	**$429,200**	$396,400	$367,300	**$ 32,800**	**8%**
Net interest income	**6,693**	6,596	6,935	**97**	**1%**
Net interest margin (2)	**1.56%**	1.66%	1.89%	**–**	**(10)bp**

(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, the net interest margin decreased by 10 basis points in 2004 to 1.56%. This reflected spread compression on Canadian mortgages and deposits resulting from lower interest rates and competitive pricing pressures, as well as growth in capital markets-related assets that generate non-interest income.

As shown in Table 6 on page 43A, while the average rate paid on total liabilities decreased by 24 basis points, the average rate received on total assets decreased by 32 basis points, leading to the 10 basis point decrease in the net interest margin. The average rate received on loans and securities decreased 61 basis points and 16 basis points,

respectively, while volumes of loans and securities were up $11.4 billion and $24.3 billion, respectively, on average.

Table 6 Net interest income on average assets and liabilities (1)

	Average balances (2)			Interest (3)			Average rate		
(C$ millions, except percentage amounts)	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Assets									
Deposits with banks									
Canada	**$ 629**	$ 428	$ 367	**$ 22**	$ 9	$ 7	**3.52%**	2.10%	1.91%
United States	**1,093**	2,490	2,316	**18**	37	64	**1.69**	1.49	2.76
Other International	**3,897**	4,401	2,464	**88**	67	89	**2.23**	1.52	3.61
	5,619	7,319	5,147	**128**	113	160	**2.27**	1.54	3.11
Securities									
Trading account	**94,178**	77,422	72,709	**2,603**	2,049	2,115	**2.76**	2.65	2.91
Investment account	**43,146**	35,639	28,486	**837**	959	1,033	**1.94**	2.69	3.63
Loan substitute	**358**	354	407	**17**	17	27	**4.75**	4.80	6.63
	137,682	113,415	101,602	**3,457**	3,025	3,175	**2.51**	2.67	3.12
Assets purchased under reverse repurchase agreements	**39,540**	42,779	37,494	**531**	806	651	**1.34**	1.88	1.74
Loans (4)									
Canada									
Residential mortgage	**75,722**	69,911	65,901	**3,903**	3,896	3,903	**5.15**	5.57	5.92
Personal	**28,857**	25,614	25,394	**1,813**	1,837	1,734	**6.28**	7.17	6.83
Credit card	**5,656**	5,197	4,354	**674**	615	519	**11.93**	11.83	11.92
Business and government	**28,249**	26,632	27,856	**1,345**	1,755	1,291	**4.76**	6.59	4.63
	138,484	127,354	123,505	**7,735**	8,103	7,447	**5.59**	6.36	6.03
United States	**28,175**	28,189	29,784	**1,255**	1,388	1,791	**4.45**	4.92	6.01
Other International	**12,176**	11,884	11,348	**670**	572	1,225	**5.50**	4.81	10.79
	178,835	167,427	164,637	**9,660**	10,063	10,463	**5.40**	6.01	6.36
Total interest-earning assets	**361,676**	330,940	308,880	**13,776**	14,007	14,449	**3.81**	4.23	4.68
Non-interest-bearing deposits with banks	**2,758**	1,947	1,753	**–**	–	–	–	–	–
Customers' liability under acceptances	**6,047**	6,838	8,515	**–**	–	–	–	–	–
Other assets	**58,719**	56,675	48,152	**–**	–	–	–	–	–
Total assets	**$429,200**	$396,400	$367,300	**$13,776**	$14,007	$14,449	**3.21%**	3.53%	3.93%
Liabilities and shareholders' equity									
Deposits (5)									
Canada	**$139,466**	$121,690	$111,880	**$ 3,186**	$ 3,311	$ 2,964	**2.28%**	2.72%	2.65%
United States	**38,501**	40,131	40,036	**510**	564	787	**1.33**	1.41	1.97
Other International	**68,052**	68,316	68,584	**1,446**	1,577	1,958	**2.12**	2.31	2.85
	246,019	230,137	220,500	**5,142**	5,452	5,709	**2.09**	2.37	2.59
Obligations related to securities sold short	**27,013**	22,898	19,912	**874**	839	797	**3.23**	3.66	4.00
Obligations related to assets sold under repurchase agreements	**30,125**	22,522	19,630	**430**	552	414	**1.43**	2.45	2.11
Subordinated debentures	**8,000**	6,455	6,804	**429**	376	406	**5.36**	5.82	5.97
Other interest-bearing liabilities	**8,857**	7,889	5,546	**208**	192	188	**2.35**	2.43	3.39
Total interest-bearing liabilities	**320,014**	289,901	272,392	**7,083**	7,411	7,514	**2.21**	2.56	2.76
Non-interest-bearing deposits	**22,183**	20,640	19,897	**–**	–	–	–	–	–
Acceptances	**6,049**	6,838	8,515	**–**	–	–	–	–	–
Other liabilities	**62,332**	60,260	47,974	**–**	–	–	–	–	–
Total liabilities	**$410,578**	$377,639	$348,778	**$ 7,083**	$ 7,411	$ 7,514	**1.72%**	1.96%	2.15%
Shareholders' equity									
Preferred	**832**	1,210	1,713	**–**	–	–	–	–	–
Common	**17,790**	17,551	16,809	**–**	–	–	–	–	–
Total liabilities and shareholders' equity	**$429,200**	$396,400	$367,300	**$ 7,083**	$ 7,411	$ 7,514	**1.65%**	1.87%	2.05%
Net interest income as a % of total average assets	**$429,200**	$396,400	$367,300	**$ 6,693**	$ 6,596	$ 6,935	**1.56%**	1.66%	1.89%
Net interest income as a % of total average interest-earning assets									
Canada	**$212,118**	$199,292	$196,321	**$ 5,036**	$ 5,140	$ 5,472	**2.37%**	2.58%	2.79%
United States	**67,253**	59,368	51,144	**1,119**	1,188	1,106	**1.66**	2.00	2.16
Other International	**82,305**	72,280	61,415	**538**	268	357	**.65**	.37	.58
Total	**$361,676**	$330,940	$308,880	**$ 6,693**	$ 6,596	$ 6,935	**1.85%**	1.99%	2.25%

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.

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

(3) Interest income includes loan fees of $336 million (2003 – $303 million; 2002 – $321 million).

(4) Average balances include impaired loans.

(5) Deposits include savings deposits with average balances of $45 billion (2003 – $38 billion; 2002 – $39 billion), interest expense of $.2 billion (2003 – $.3 billion; 2002 – $.3 billion) and average rates of ..53% (2003 – .78%; 2002–.69%). Deposits also include term deposits with average balances of $169 billion (2003 – $160 billion; 2002 – $155 billion), interest expense of $4.0 billion (2003 – $4.1 billion; 2002 – $4.4 billion) and average rates of 2.34% (2003 – 2.53%; 2002– 2.85%).

Table 7 Change in net interest income (1)

(C$ millions)	2004 vs 2003 Increase (decrease) due to changes in: Average volume (2)	Average rate (2)	Net change	2003 vs 2002 Increase (decrease) due to changes in: Average volume (2)	Average rate (2)	Net change
Assets						
Deposits with banks						
Canada	**$ 5**	**$ 8**	**$ 13**	$ 1	$ 1	$ 2
United States	**(24)**	**5**	**(19)**	4	(31)	(27)
Other International	**(7)**	**28**	**21**	47	(69)	(22)
Securities						
Trading account	**460**	**94**	**554**	132	(198)	(66)
Investment account	**178**	**(300)**	**(122)**	226	(300)	(74)
Loan substitute	**0**	**–**	**–**	(3)	(7)	(10)
Assets purchased under reverse repurchase agreements	**(57)**	**(218)**	**(275)**	97	58	155
Loans						
Canada						
Residential mortgage	**311**	**(304)**	**7**	230	(237)	(7)
Personal	**218**	**(242)**	**(24)**	15	88	103
Credit card	**54**	**5**	**59**	100	(4)	96
Business and government	**101**	**(511)**	**(410)**	(59)	523	464
United States	**(1)**	**(132)**	**(133)**	(92)	(311)	(403)
Other International	**14**	**84**	**98**	55	(708)	(653)
Total interest income	**$ 1,252**	**$(1,483)**	**$(231)**	$ 753	$(1,195)	$(442)
Liabilities						
Deposits						
Canada	**$ 446**	**$ (571)**	**$(125)**	$ 265	$ 82	$ 347
United States	**(22)**	**(32)**	**(54)**	2	(225)	(223)
Other International	**(6)**	**(125)**	**(131)**	(8)	(373)	(381)
Obligations related to securities sold short	**140**	**(105)**	**35**	113	(71)	42
Obligations related to assets sold under repurchase agreements	**152**	**(274)**	**(122)**	66	72	138
Subordinated debentures	**85**	**(32)**	**53**	(20)	(10)	(30)
Other interest-bearing liabilities	**23**	**(7)**	**16**	66	(62)	4
Total interest expense	**818**	**(1,146)**	**(328)**	484	(587)	(103)
Net interest income	**$ 434**	**$ (337)**	**$ 97**	$ 269	$ (608)	$(339)

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.

(2) 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 8 Non-interest income

(C$ millions, except percentage amounts)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Insurance premiums, investment and fee income	**$ 2,870**	$ 2,356	$ 2,043	**$ 514**	**22%**
Trading revenues	**1,526**	1,922	1,690	**(396)**	**(21)**
Investment management and custodial fees	**1,198**	1,143	1,177	**55**	**5**
Securities brokerage commissions	**1,166**	1,031	1,187	**135**	**13**
Deposit and payment service charges	**1,050**	1,078	1,041	**(28)**	**(3)**
Underwriting and other advisory fees	**909**	813	755	**96**	**12**
Mutual fund revenues	**850**	673	723	**177**	**26**
Card service revenues	**555**	518	496	**37**	**7**
Foreign exchange revenues, other than trading	**331**	279	276	**52**	**19**
Credit fees	**224**	227	223	**(3)**	**(1)**
Securitization revenues	**200**	165	174	**35**	**21**
Mortgage banking revenues	**59**	198	222	**(139)**	**(70)**
Gain (loss) on sale of investment account securities	**23**	31	(111)	**(8)**	**(26)**
Other	**467**	388	424	**79**	**20**
Total	**$11,428**	$10,822	$10,320	**$ 606**	**6%**

Non-interest income

As shown in Table 8 on page 44A, non-interest income was up $606 million or 6% from 2003, for the reasons discussed below.

Insurance premiums, investment and fee income were up $514 million or 22%, primarily reflecting growth in the Canadian life and health operations (principally from UnumProvident) and the home and auto business, which more than offset the loss of revenues from a non- renewed block of reinsurance business in 2004. Mutual fund revenues were up $177 million or 26% reflecting growth in mutual fund assets, appreciation in the value of mutual funds and an increase in the proportion of long-term funds on which we earn higher fees. Securities brokerage commissions were up $135 million or 13% due to strong equities markets and the resultant higher client trading volumes during the year. Underwriting and other advisory fees increased by $96 million or 12% reflecting improvements in capital markets activity over 2003. Investment management and custodial fees were up $55 million or 5% largely reflecting increased fees from market appreciation of equities and higher volumes.

Trading revenues included in non-interest income were down $396 million or 21% primarily reflecting derivative returns associated with our arbitrage trading strategies. Mortgage banking revenues (which relate to mortgages originated in the U.S. by RBC Mortgage and RBC Centura) were down $139 million or 70% due to lower margins and origination volumes at RBC Mortgage from exceptionally high levels in 2003, when low interest rates drove a mortgage refinance boom. Non-interest income was reduced $420 million due to the appreciation of the Canadian dollar relative to the U.S. dollar.

Non-interest income accounted for 63% of total revenues, up 1% from 2003.

Table 9 Trading revenues

(C$ millions, except percentage amounts)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Net interest income (1)	**$ 322**	$ 95	$ 127	**$ 227**	**239%**
Non-interest income (2)	**1,526**	1,922	1,690	**(396)**	**(21)**
Total	**$1,848**	$2,017	$1,817	**$ (169)**	**(8)%**
By product					
Equity	**$ 533**	$ 541	$ 657	**$ (8)**	**(1)%**
Fixed income and money markets (3)	**1,037**	1,175	896	**(138)**	**(12)**
Foreign exchange contracts (4)	**278**	301	264	**(23)**	**(8)**
Total	**$1,848**	$2,017	$1,817	**$ (169)**	**(8)%**

(1) Interest and dividends on trading securities, other cash instruments and trading-related derivatives and related funding charges or benefits.

(2) 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 presented in Table 9 include both trading revenues reported in non-interest income and trading-related net interest income as they are both considered in evaluating the overall revenues of our trading activities.

As shown in Table 9, total trading revenues were down $169 million or 8% in 2004. Trading revenues reported in net interest income were up $227 million or 239%, primarily due to dividends earned as part of our arbitrage trading strategies. Trading revenues reported in non- interest income were down $396 million or 21%, primarily reflecting derivative returns also associated with our arbitrage trading strategies.

Fixed income and money market trading revenues decreased by $138 million or 12% reflecting tighter spreads on client business due to competitive markets. Lower revenues were experienced in sales and trading of debt securities and money market instruments. Revenues in interest rate derivatives were stable while revenues in credit derivatives improved due to increased client volumes and higher returns on proprietary credit positions taken during the year.

Equity trading revenues decreased by $8 million or 1% despite higher revenues experienced in structured hedge fund transactions. Lower revenues were experienced in proprietary equity derivative trading businesses due primarily to the stronger Canadian dollar experienced in fiscal 2004, which negatively affected U.S. dollar-denominated revenues.

Foreign exchange trading revenues, which include foreign exchange spot, forward and derivative contracts in addition to commodity and precious metals, decreased by $23 million or 8% due primarily to the strengthening Canadian dollar, which resulted in a $25 million reduction in U.S. dollar-denominated revenues. Canadian dollar liquidity also made for difficult trading conditions. However, partially offsetting this decline were improved results from the derivatives group, which leveraged its global platform to capitalize on trading flows and market movements.

FINANCIAL PRIORITY: COST CONTROL

Highlight

- Non-interest expense was up 7% from 2003

Non-interest expense

Non-interest expense was up $700 million or 7% from 2003. The increase was largely due to higher human resource expenses throughout 2004 (primarily higher benefit costs and higher variable compensation costs, driven by increases in revenues) and the Rabobank settlement costs net of a related reduction in compensation, which more than offset a $345 million reduction of non-interest expense due to the appreciation of the Canadian dollar relative to the U.S. dollar in 2004.

As shown in Table 10 below, human resource costs increased by $406 million or 6% in 2004, reflecting a $195 million or 21% increase in benefits expense, a $189 million or 9% increase in variable compensation expense and a $61 million or 2% increase in salaries. The increase in benefits costs was largely due to higher pension and postretirement benefit costs. Pension costs increased due to the amortization of prior year lower asset returns and the impact of lower discount rates. Postretirement benefit expense increased primarily due to the amortization of actuarial losses resulting from higher claims experiences and a lower discount rate used to value other postretirement benefit liabilities in 2004 (see Note 17 on page 98A). The increase in variable compensation costs resulted from stronger capital markets-related revenues in RBC Capital Markets and RBC Investments. Higher salary costs partially reflected an increase in the number of employees, largely due to acquisitions completed over the past year.

Table 10 Non-interest expense

(C$ millions, except percentage amounts)	2004	2003	2002	2004 vs 2003 Increase (decrease)	
Human resources					
Salaries	**$ 3,343**	$ 3,282	$ 3,224	**$ 61**	**2%**
Variable compensation	**2,273**	2,084	2,095	**189**	**9**
Acquisition-related retention compensation	**36**	84	158	**(48)**	**(57)**
Benefits	**1,120**	925	783	**195**	**21**
Stock compensation (1)	**82**	73	55	**9**	**12**
	6,854	6,448	6,315	**406**	**6**
Occupancy					
Net premises rent	**389**	370	395	**19**	**5**
Premises repairs and maintenance (2)	**218**	192	177	**26**	**14**
Depreciation	**93**	95	103	**(2)**	**(2)**
Property taxes	**84**	82	84	**2**	**2**
	784	739	759	**45**	**6**
Equipment					
Office and computer rental and maintenance	**631**	598	589	**33**	**6**
Depreciation	**303**	303	304	**–**	**–**
	934	901	893	**33**	**4**
Communications					
Telecommunication	**253**	303	328	**(50)**	**(17)**
Marketing and public relations	**238**	212	211	**26**	**12**
Postage and courier	**105**	113	121	**(8)**	**(7)**
Stationery and printing	**105**	104	108	**1**	**1**
	701	732	768	**(31)**	**(4)**
Professional fees	**493**	460	416	**33**	**7**
Outsourced item processing	**294**	292	306	**2**	**1**
Amortization of other intangibles	**69**	71	72	**(2)**	**(3)**
Other					
Business and capital taxes	**155**	144	129	**11**	**8**
Travel and relocation	**144**	140	144	**4**	**3**
Employee training	**39**	39	46	**–**	**–**
Donations	**42**	38	41	**4**	**11**
Other	**600**	405	531	**195**	**48**
	980	766	891	**214**	**28**
Total	**$11,109**	$10,409	$10,420	**$ 700**	**7%**

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

(2) Premises repairs and maintenance includes energy costs.

Occupancy costs were up $45 million or 6%, largely due to higher premises repairs and maintenance costs, partially reflecting the reversal in the fourth quarter of 2003 of a reserve previously established for vacant space that was subsequently subleased. Equipment costs were up $33 million or 4% due to higher office and computer rental and maintenance expenses largely as a result of the UnumProvident acquisition and the relocation of RBC Capital Markets' London office.

Other non-interest expenses were up by $214 million or 28%, mainly due to the Rabobank settlement costs and recognition of a $33 million valuation allowance in the U.S. relating to certain mortgage loans that are believed to have been fraudulently originated in 2001 and 2002.

Focus on cost control

Our expense growth of 7% in 2004 missed our objective of growing expenses at a lower rate than revenues (which were up only 4%). In light of this disappointing performance, we took strong action in the fourth quarter to become more efficient and cost-effective. As part of the Client First Initiative, we are streamlining our organizational structure, resources and processes for faster decision-making, quicker implementation and better productivity. We are realigning to focus more effectively on our distinct client groups in Canada, the U.S. and internationally, and are integrating all our systems and operating capabilities in a global technology and operations group. We believe the Client First Initiative will allow us to control our costs more aggressively.

The business realignment charges of the fourth quarter are discussed on page 25A in the Financial overview section.

Table 11 Taxes

(C$ millions, except percentage amounts)	2004	2003	2002
Income taxes	**$1,232**	$1,460	$1,365
Other taxes			
Goods and services and sales taxes	**225**	220	224
Payroll taxes	**207**	212	204
Capital taxes	**140**	124	107
Property taxes (1)	**84**	82	84
Business taxes	**15**	20	22
Insurance premium taxes	**33**	26	22
	704	684	663
Total	**$1,936**	$2,144	$2,028
Effective income tax rate (2)	**29.2%**	31.8%	32.2%
Effective total tax rate (3)	**39.3%**	40.6%	41.4%

(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 taxes on income assessed by the governments of foreign jurisdictions where we operate. Taxes are also assessed on expenditures and supplies consumed in support of our operations.

Income and other taxes shown in Table 11 above were $1,936 million in 2004, comprising income taxes of $1,232 million and other taxes of $704 million. Income taxes decreased by $228 million from 2003, largely due to lower net income before tax. Other taxes increased by $20 million, largely due to an increase in capital taxes.

As shown above, the effective income tax rate decreased from 31.8% in 2003 to 29.2% in 2004, reflecting a reduction in the federal tax rate in Canada. In addition to the income and other taxes reported in the Consolidated statement of income, we recorded income taxes of $330 million in 2004 ($1,065 million in 2003) in shareholders' equity, a reduction of $735 million, reflecting a decrease in unrealized foreign currency translation gains as shown in Note 15 on page 96A.

FINANCIAL PRIORITY: STRONG CREDIT QUALITY

Highlights

- Portfolio continues to be well diversified
- $175 million drawdown of the general allowance, reflecting continued improvement in credit quality
- Gross impaired loans down 28% from 2003 to $1,259 million
- Net impaired loans to total loans, acceptances and reverse repurchase agreements down from .46% to .34%
- Provision for credit losses down 52% to $346 million
- Specific provision ratio of .23%, down from .33% in 2003
- Net write-offs ratio of .35%, down from .37% in 2003

Loan portfolio

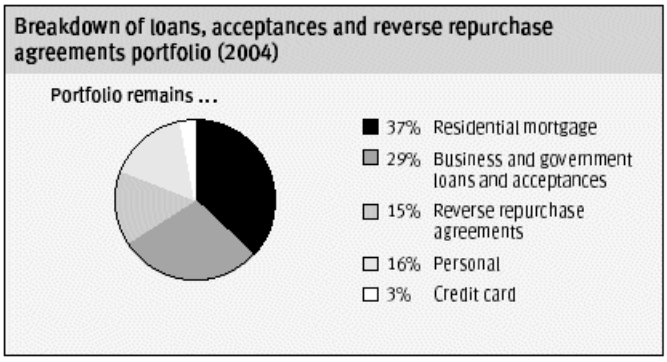
During 2004, our loan portfolio continued to perform well, reflecting strong economic conditions in Canada and the U.S. and a continuation of the low interest rate environment, which contributed to strong household and business credit quality.

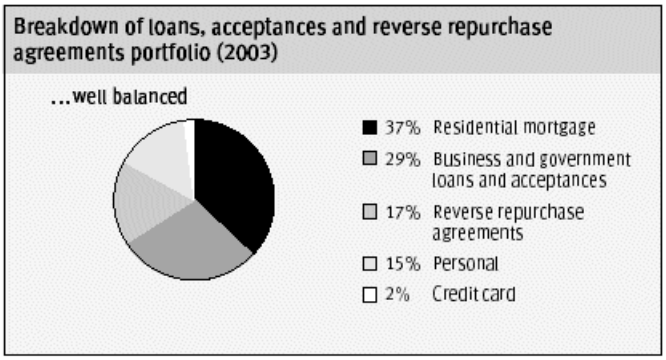
As shown in the charts below, our loan portfolio remains well balanced among residential mortgage, personal, credit card, business and government loans, acceptances and reverse repurchase agreements. Compared to October 31, 2003, loans, acceptances and reverse repurchase agreements were up $14.6 billion, reflecting good loan demand in a lower interest rate environment. Business and government loans and acceptances were up $4.3 billion, residential mortgages were up $5.4 billion, personal loans were up $4.7 billion and credit card balances were up $1.6 billion. The domestic portfolios experienced strong growth and accounted for a significant portion of the overall increase experienced during the year.

The portion of our business and government credit exposure rated investment grade was 69% in 2004, unchanged from 2003. Business and government loans and acceptances include our small business portfolio of $10.1 billion, which is generally rated lower than our loans to larger businesses.

Table 12 on page 50A provides a detailed breakdown of loans, acceptances and reverse repurchase agreements, which we believe continue to be well diversified across sectors and geographies.

In 2004, we increased our exposure to key areas that we have targeted for growth including financial services. The increase in financial services was largely due to an increase in securities lending activity. During 2004, we continued to reduce our exposure to certain risk sensitive areas such as telecommunication, cable, electricity generation and distribution (within the energy sector) and airlines and aerospace (within the transportation and environment sector). Our aggregate exposure to these areas has declined by $1.3 billion since 2003 to $1.9 billion or .82% of loans, acceptances and reverse repurchase agreements.





Impaired loans

Loans are generally classified as impaired (meaning interest is no longer being accrued) when there is no longer reasonable assurance of timely collection of the full amount of principal or interest, as more fully described in Note 1 on page 79A.

As indicated in Table 13 on page 51A, gross impaired loans decreased by $486 million or 28% during the year to $1,259 million. This was largely due to successful collection efforts, resulting in a number of problem accounts being repaid, restructured or sold and a general improvement in the credit environment, resulting in fewer new problem loans.

Business and government gross impaired loans fell by $455 million to $924 million, primarily resulting from reductions of $232 million in Canada and $223 million in Other International. The majority of the decline in Canada occurred in the transportation and environment, agriculture, and small business sectors, while the majority of the decline in Other International was in the energy, mining and metals, financial services and media and cable sectors. Small business gross impaired loans in Canada continue to decline as a result of enhanced underwriting, monitoring and collection processes.

In the consumer portfolio, gross impaired loans declined by $31 million to $335 million, with a $49 million decline in Canada partially offset by an increase of $15 million in the United States. New additions to gross impaired loans declined during the year, largely due to healthy household credit quality and the realization of benefits from our prior implementation of advanced risk modeling technology designed to optimize reward for risk assumed.

Net impaired loans as a percentage of related loans, acceptances and reverse repurchase agreements decreased to .34% from .46% in 2003, reflecting improvements in both the Canadian and Other International ratios and a slight deterioration in the U.S., as shown in Table 20 on page 56A.

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 $346 million in 2004, down $375 million from 2003, as shown in Table 14 on page 52A. This reflected a $200 million decline in the specific provision and a $175 million reduction in the general allowance.

The specific provision on business and government loans decreased by $179 million or 59% to $125 million in 2004, reflecting declines of $111 million in Canada (largely in the transportation and environment sector), and $96 million in Other International (mostly in the energy sector), partially offset by an increase of $28 million in the United States. The overall increase in the United States is a result of an increase in the energy sector of $47 million, partially offset by reductions in other sectors. In the consumer portfolio, the specific provision for credit losses decreased by $21 million, largely related to personal loans in the United States.

In 2004, the specific provisions for credit losses were $521 million or .23% of average loans, acceptances and reverse repurchase agreements (as shown in Table 20 on page 56A) and .28% of average loans and acceptances. This compared to $721 million or .33% and .41%, respectively, a year ago. We believe that a ratio of specific provisions to average loans and acceptances is a more meaningful measure of loan quality than a ratio based on average loans, acceptances and reverse repurchase agreements. Based on the new ratio, we have revised our medium-term goal and objective for 2005, according to which we will measure our future performance.

Outlook

In 2005, we expect a ratio of specific provisions for credit losses to average loans and acceptances in the range of .35–.45% compared to our 2004 performance of .28%. This reflects management's view that credit losses in our large business and government portfolios will likely revert to more normalized levels.

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 analysis, 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 the Critical accounting policies and estimates section on page 26A, the allowance for credit losses comprises three components – specific, general allocated and general unallocated.

As shown in Table 18 on page 54A, the allowance for credit losses decreased by $450 million or 21% from 2003 to a cyclical low of $1,714 million. This change was largely due to a $175 million drawdown of the general allowance, and decreases in the specific allowance, which were in line with the reduction in impaired loans over the same period. The drawdown of the general allowance followed an assessment of the credit quality of our loan portfolios and the adequacy of the related general allowance levels. The drawdown reflects positive changes in portfolio composition, improving default trends and better economic conditions. During the year, write-offs, net of recoveries, declined to $785 million or .35% of average loans, acceptances and reverse repurchase agreements from $812 million or .37% a year ago.

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 59A.

As shown in Table 15 on page 53A, the largest Canadian exposure is in Ontario, which has 40% of total loans, acceptances and reverse repurchase agreements. Internationally, the largest concentration is in the U.S., where we have 13% of our total loans, acceptances and reverse repurchase agreements.

As shown in Table 12 on page 50A, the largest sector concentrations, excluding small business, are in financial services, commercial real estate and agriculture, with 7%, 4% and 2% of loans, acceptances and reverse repurchase agreements, respectively.

Table 19 on page 55A shows contractual amounts with clients outside of Canada. Of the total international contractual amounts, $63 billion or 15% 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 by industry sector (1)

(C$ millions, except percentage amounts)	2004	2003	2002	2001	2000	Percentage of total 2004	Percentage of total 2000
Canada							
Consumer							
Residential mortgage	**$ 80,168**	$ 73,978	$ 67,700	$ 64,066	$ 61,444	**35.0%**	33.0%
Personal	**30,415**	26,445	24,550	26,086	26,275	**13.3**	14.1
Credit card	**6,298**	4,663	4,740	4,110	4,666	**2.7**	2.5
	116,881	105,086	96,990	94,262	92,385	**51.0**	49.6
Business and government loans and acceptances							
Small business (2)	**10,137**	9,705	9,470	9,788	11,701	**4.4**	6.3
Agriculture	**4,400**	4,526	4,427	4,758	4,931	**1.9**	2.6
Commercial mortgages	**2,761**	2,616	2,485	2,635	2,961	**1.2**	1.6
Consumer goods	**2,215**	2,394	2,280	2,447	2,874	**1.0**	1.5
Commercial real estate	**2,418**	2,086	2,327	2,325	2,594	**1.1**	1.4
Energy	**2,160**	1,702	2,919	4,293	3,754	**.9**	2.0
Government	**1,921**	1,805	1,006	1,597	1,385	**.8**	.7
Automotive (3)	**1,724**	1,630	1,376	864	673	**.8**	.4
Industrial products	**1,521**	1,503	1,642	2,174	2,470	**.7**	1.3
Transportation and environment (3)	**1,034**	1,111	1,524	2,138	1,519	**.5**	.8
Forest products	**779**	1,052	975	1,275	1,362	**.3**	.7
Financial services	**2,027**	947	2,245	3,010	2,218	**.9**	1.2
Media and cable (4)	**772**	839	996	1,510	1,120	**.3**	.6
Mining and metals	**250**	369	369	636	897	**.1**	.5
Telecommunication	**135**	169	488	677	1,008	**.1**	.5
Information technology	**274**	126	197	203	210	**.1**	.1
Other	**4,520**	3,996	6,859	8,098	7,369	**2.0**	4.0
	39,048	36,576	41,585	48,428	49,046	**17.0**	26.3
Reverse repurchase agreements	**18,262**	14,996	19,116	22,860	12,094	**8.0**	6.5
Total Canada	**174,191**	156,658	157,691	165,550	153,525	**76.0**	82.5
United States							
Consumer							
Residential mortgage	**3,225**	4,094	4,351	2,664	845	**1.4**	.5
Personal	**5,849**	5,015	5,269	4,621	78	**2.6**	–
Cards	**108**	107	125	128	–	**–**	–
	9,182	9,216	9,745	7,413	923	**4.0**	.5
Business and government loans and acceptances							
Consumer goods	**723**	824	958	1,172	435	**.3**	.2
Commercial real estate	**5,267**	5,480	4,531	3,773	44	**2.3**	–
Energy	**843**	1,200	2,680	1,613	1,582	**.4**	.8
Government	**221**	100	19	23	–	**.1**	–
Automotive (3)	**255**	329	409	408	221	**.1**	.1
Industrial products	**360**	466	974	1,513	1,107	**.2**	.6
Transportation and environment (3)	**213**	350	484	788	469	**.1**	.3
Forest products	**89**	127	223	98	181	**–**	.1
Financial services	**5,003**	3,330	3,200	2,754	4,521	**2.2**	2.4
Media and cable (4)	**564**	854	1,107	1,038	1,782	**.2**	1.0
Mining and metals	**26**	97	70	45	104	**–**	.1
Telecommunication	**54**	315	689	835	1,131	**–**	.6
Information technology	**128**	86	177	299	374	**.1**	.2
Other	**2,817**	2,773	3,348	3,089	541	**1.2**	.3
	16,563	16,331	18,869	17,448	12,492	**7.2**	6.7
Reverse repurchase agreements	**4,985**	5,721	4,512	5,199	2,524	**2.2**	1.4
Total United States	**30,730**	31,268	33,126	30,060	15,939	**13.4**	8.6
Other International							
Consumer							
Residential mortgage	**777**	745	789	712	695	**.3**	.4
Personal	**584**	726	769	688	734	**.3**	.4
Cards	**50**	46	49	45	–	**–**	–
	1,411	1,517	1,607	1,445	1,429	**.6**	.8
Business and government loans and acceptances							

Consumer goods	**119**	185	425	527	676	**.1**	.4
Commercial real estate	**153**	504	593	309	227	**.1**	.1
Energy	**340**	672	1,051	1,381	1,469	**.1**	.8
Government	**21**	30	111	105	167	**–**	.1
Automotive (3)	**9**	6	2	119	292	**–**	.2
Industrial products	**7**	91	225	603	642	**–**	.3
Transportation and environment (3)	**1,000**	1,326	1,958	783	1,018	**.4**	.5
Forest products	**37**	77	194	287	287	**–**	.2
Financial services	**7,983**	4,914	2,414	3,893	3,391	**3.5**	1.8
Media and cable (4)	**20**	95	213	342	251	**–**	.1
Mining and metals	**333**	525	1,122	1,026	797	**.1**	.4
Telecommunication	**13**	56	557	723	1,113	**–**	.6
Information technology	**–**	–	2	97	59	**–**	–
Other	**1,251**	1,185	595	589	1,179	**.5**	.6
	11,286	9,666	9,462	10,784	11,568	**4.9**	6.2
Reverse repurchase agreements	**11,615**	15,572	13,457	9,342	3,685	**5.1**	2.0
Total Other International	**24,312**	26,755	24,526	21,571	16,682	**10.6**	9.0
Total loans, acceptances and reverse repurchase agreements	**229,233**	214,681	215,343	217,181	186,146	**100.0%**	100.0%
Allowance for loan losses	**(1,644)**	(2,055)	(2,203)	(2,278)	(1,871)		
Total	**$227,589**	$212,626	$213,140	$214,903	$184,275		

(1) Based on residence of borrower.

(2) Comprises the following industries in 2004: commercial real estate of $1,821 million (2003 – $1,777 million; 2002 – $1,737 million), consumer goods of $1,764 million (2003 – $1,777 million; 2002 – $1,583 million), industrial products of $999 million (2003 – $952 million; 2002 – $887 million), transportation and environment of $502 million (2003 – $503 million; 2002 – $552 million), automotive of $463 million (2003 – $462 million; 2002 – $377 million), forest products of $276 million (2003 – $298 million; 2002 – $278 million), energy of $150 million (2003 – $137 million; 2002 – $125 million), information technology of $124 million (2003 – $113 million; 2002 – $93 million), mining and metals of $62 million (2003 – $65 million; 2002 – $69 million), financial services of $86 million (2003 – $136 million; 2002 – $132 million), media and cable of $85 million (2003 – $81 million; 2002 – $77 million), telecommunications of $23 million (2003 –$48 million; 2002 – $34 million), and other of $3,782 million (2003 – $3,356 million; 2002 – $3,526 million).

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

(4) Includes cable loans of $218 million in Canada in 2004 (2003 – $236 million; 2002 – $267 million; 2001 – $330 million; 2000 – $262 million) and $191 million in the United States in 2004 (2003 –$357 million; 2002 – $522 million; 2001 – $455 million; 2000 – $1,162 million); and $20 million in Other International in 2004 (2003 – $75 million; 2002 – $112 million; 2001 – $170 million; 2000 – $159 million).

Table 13 Impaired loans by industry sector

(C$ millions)	2004		2003		2002	2001	2000
	Gross	Net (1)	Gross	Net (1)	Net (1)	Net (1)	Net (1)
Canada							
Consumer							
Residential mortgage	**$ 96**	**$ 85**	$ 110	$ 98	$ 87	$ 118	$157
Personal	**178**	**70**	213	84	112	129	51
	274	**155**	323	182	199	247	208
Business and government							
Small business (2)	**142**	**62**	169	80	104	132	141
Agriculture (2)	**75**	**48**	127	90	97	86	39
Commercial mortgages	**17**	**14**	24	18	8	5	–
Consumer goods	**25**	**24**	32	17	26	5	23
Commercial real estate	**2**	**1**	8	4	11	44	41
Energy	**1**	**1**	1	1	1	9	–
Automotive	**–**	**–**	–	–	3	5	4
Industrial products	**34**	**22**	18	5	12	26	18
Transportation and environment	**9**	**–**	118	62	108	222	120
Forest products	**151**	**94**	169	115	156	184	180
Financial services	**–**	**–**	3	3	(1)	2	7
Media and cable (3)	**3**	**2**	15	13	6	15	17
Mining and metals	**6**	**5**	–	–	–	1	(1)
Telecommunication	**10**	**6**	8	3	6	–	–
Information technology	**–**	**–**	17	13	2	7	(2)
Other	**34**	**22**	32	20	28	17	1
	509	**301**	741	444	567	760	588
Total Canada	**783**	**456**	1,064	626	766	1,007	796
United States							
Consumer							
Residential mortgage	**33**	**31**	7	6	13	22	–
Personal	**11**	**8**	22	12	17	8	–
	44	**39**	29	18	30	30	–
Business and government							
Consumer goods	**11**	**7**	16	12	7	7	–
Commercial real estate	**65**	**51**	65	53	62	49	1
Energy	**141**	**93**	114	49	29	–	–
Automotive	**4**	**2**	7	6	22	25	–
Industrial products	**4**	**1**	5	2	13	(1)	34
Transportation and environment	**3**	**1**	9	2	28	26	25
Financial services	**–**	**–**	9	6	35	23	–
Media and cable (3)	**64**	**57**	44	44	56	–	–
Telecommunication	**–**	**–**	–	–	35	122	–
Information technology	**9**	**8**	11	1	17	70	–
Other	**31**	**(6)**	52	26	21	24	9
	332	**214**	332	201	325	345	69
Total United States	**376**	**253**	361	219	355	375	69
Other International							
Consumer							
Residential mortgage	**17**	**17**	14	14	13	13	5
	17	**17**	14	14	13	13	5
Business and government							
Energy	**20**	**15**	125	47	110	–	(2)
Industrial products	**–**	**–**	2	–	–	(1)	4
Transportation and environment	**–**	**–**	9	5	11	32	–
Financial services	**14**	**–**	33	5	11	1	(2)
Media and cable (3)	**–**	**–**	27	13	–	–	–
Mining and metals	**2**	**1**	57	25	90	29	6
Other	**47**	**30**	53	34	38	27	27
	83	**46**	306	129	260	88	33
Total Other International	**100**	**63**	320	143	273	101	38
Total (4), (5)	**$1,259**	**$772**	$1,745	$988	$1,394	$1,483	$903

(1) Net of specific allowance.

(2) Includes government guaranteed portions of impaired loans of $24 million in small business in 2004 (2003 – $39 million; 2002 – $64 million; 2001 – $95 million; 2000 – $101 million) and $9 million in agriculture (2003 – $9 million; 2002 – $10 million; 2001 – $6 million; 2000 – $6 million).

(3) Consists entirely of cable loans.

(4) Includes foreclosed assets of $27 million in 2004 (2003 – $34 million; 2002 – $32 million; 2001 – $37 million; 2000 – $16 million).

(5) Past due loans greater than 90 days not included in impaired loans was $219 million in 2004 (2003 – $222 million; 2002 – $217 million; 2001 – $245 million).

Table 14 Provision for credit losses by industry sector

(C$ millions)	2004	2003	2002	2001	2000
Canada					
Consumer					
Residential mortgage	**$ 6**	$ 4	$ 3	$ 8	$ –
Personal	**212**	230	266	265	301
Credit card	**165**	152	135	125	102
	383	386	404	398	403
Business and government					
Small business	**75**	77	110	164	105
Agriculture	**6**	(2)	22	20	4
Commercial mortgages	**–**	(3)	(5)	7	2
Consumer goods	**(20)**	2	19	2	7
Commercial real estate	**(10)**	(14)	(15)	15	(17)
Energy	**–**	–	4	17	(8)
Automotive	**–**	–	–	17	–
Industrial products	**4**	2	(7)	14	2
Transportation and environment	**(33)**	69	(19)	13	56
Forest products	**3**	13	4	7	(36)
Financial services	**–**	(4)	(27)	(9)	–
Media and cable	**(1)**	1	(7)	13	12
Mining and metals	**–**	1	(1)	–	(1)
Telecommunication	**8**	5	59	–	(1)
Information technology	**(1)**	2	3	3	8
Other	**(1)**	(8)	(15)	8	(10)
	30	141	125	291	123
Total Canada	**413**	527	529	689	526
United States					
Consumer					
Residential mortgage	**1**	3	7	8	–
Personal	**9**	24	15	5	–
Cards	**3**	3	4	2	–
	13	30	26	15	–
Business and government					
Consumer goods	**1**	8	4	2	–
Commercial real estate	**3**	5	5	66	2
Energy	**63**	16	107	–	–
Automotive	**1**	(1)	1	6	–
Industrial products	**1**	(1)	8	3	40
Transportation and environment	**(1)**	7	5	(4)	42
Financial services	**–**	–	11	7	–
Media and cable	**8**	12	–	3	–
Telecommunication	**(13)**	–	202	272	–
Information technology	**(4)**	(4)	41	7	–
Other	**47**	36	30	–	15
	106	78	414	362	99
Total United States	**119**	108	440	377	99
Other International					
Consumer					
Residential mortgage	**–**	1	–	(8)	–
	–	1	–	(8)	–
Business and government					
Consumer goods	**–**	–	(6)	(2)	(7)
Commercial real estate	**–**	–	(1)	(1)	(1)
Energy	**(13)**	62	34	(8)	(2)
Automotive	**–**	–	–	1	(8)
Industrial products	**–**	–	(3)	–	(6)
Transportation and environment	**(1)**	1	16	12	–
Financial services	**–**	3	10	(10)	(21)
Media and cable	**4**	14	–	–	–
Mining and metals	**(4)**	4	28	–	2
Other	**3**	1	18	(1)	(11)
	(11)	85	96	(9)	(54)

Total Other International	**(11)**	86	96	(17)	(54)
Total specific provision	**521**	721	1,065	1,049	571
General allocated	**(147)**	6	(22)	205	73
General unallocated	**(28)**	(6)	22	(135)	47
Total general provision	**(175)**	–	–	70	120
Total	**$ 346**	$721	$1,065	$1,119	$691

Table 15 Loans, acceptances and reverse repurchase agreements by geographic location (1)

(C$ millions, except percentage amounts)	2004	2003	2002	2001	2000	Percentage of total 2004	Percentage of total 2000
Canada							
Atlantic provinces (2)	**$ 10,385**	$ 9,856	$ 9,741	$ 9,518	$ 9,690	**4.5%**	5.2%
Quebec	**16,976**	15,800	15,224	13,760	16,191	**7.4**	8.7
Ontario	**90,485**	80,541	82,438	94,821	73,124	**39.5**	39.3
Prairie provinces (3)	**29,899**	26,823	26,953	24,949	29,402	**13.1**	15.8
British Columbia	**26,446**	23,638	23,335	22,502	25,118	**11.5**	13.5
Total Canada	**174,191**	156,658	157,691	165,550	153,525	**76.0**	82.5
United States	**30,730**	31,268	33,126	30,060	15,939	**13.4**	8.5
Other International	**24,312**	26,755	24,526	21,571	16,682	**10.6**	9.0
Total loans and acceptances and reverse repurchase agreements	**229,233**	214,681	215,343	217,181	186,146	**100.0%**	100.0%
Allowance for loan losses	**(1,644)**	(2,055)	(2,203)	(2,278)	(1,871)		
Total	**$227,589**	$212,626	$213,140	$214,903	$184,275		

(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.

Table 16 Impaired loans by geographic location

(C$ millions, except percentage amounts)	2004		2003	2002	2001	2000	Percentage of total 2004	Percentage of total 2000
	Gross	Net (3)	Gross	Net (3)	Net (3)	Net (3)	Net (3)		
Canada									
Atlantic provinces (1)	**$ 60**	**$ 35**	$ 81	$ 44	$ 55	$ 67	$ 65	**4.5%**	7.2%
Quebec	**131**	**96**	155	85	60	204	121	**12.4**	13.4
Ontario	**254**	**122**	348	199	261	330	287	**15.8**	31.8
Prairie provinces (2)	**93**	**53**	140	79	98	71	57	**6.9**	6.3
British Columbia	**245**	**150**	340	219	292	335	266	**19.4**	29.5
Total Canada	**783**	**456**	1,064	626	766	1,007	796	**59.0**	88.2
United States	**376**	**253**	361	219	355	375	69	**32.8**	7.6
Other International	**100**	**63**	320	143	273	101	38	**8.2**	4.2
Total	**$ 1,259**	**$772**	$1,745	$988	$1,394	$1,483	$903	**100.0%**	100.0%

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

(2) Comprises Manitoba, Saskatchewan and Alberta.

(3) Net of specific allowance.

Table 17 Provision for credit losses by geographic location

(C$ millions, except percentage amounts)	2004	2003	2002	2001	2000	Percentage of total 2004	Percentage of total 2000
Canada							
Atlantic provinces (1)	**$ 34**	$ 46	$ 59	$ 63	$ 58	**9.8%**	8.4%
Quebec	**(1)**	77	(5)	43	22	**(.3)**	3.2
Ontario	**318**	309	330	398	342	**91.9**	49.5
Prairie provinces (2)	**31**	55	86	81	64	**9.0**	9.3
British Columbia	**31**	40	59	104	40	**9.0**	5.7
Total Canada	**413**	527	529	689	526	**119.4**	76.1
United States	**119**	108	440	377	99	**34.4**	14.3
Other International	**(11)**	86	96	(17)	(54)	**(3.2)**	(7.8)
Total specific provision	**521**	721	1,065	1,049	571	**150.6**	82.6

General allocated provision	**(147)**	6	(22)	205	73	**(42.5)**	10.6
Total allocated provision	**374**	727	1,043	1,254	644	**108.1**	93.2
Total general unallocated provision	**(28)**	(6)	22	(135)	47	**(8.1)**	6.8
Total	**$ 346**	$721	$1,065	$1,119	$691	**100.0%**	100.0%

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

(2) Comprises Manitoba, Saskatchewan and Alberta.

Table 18 Allowance for credit losses

(C$ millions)	2004	2003	2002	2001	2000
Allowance at beginning of year	**$ 2,164**	$2,314	$ 2,392	$ 1,975	$1,900
Provision for credit losses	**346**	721	1,065	1,119	691
Write-offs					
Canada					
Residential mortgage	**(7)**	(6)	(11)	(15)	(11)
Personal	**(306)**	(345)	(381)	(394)	(372)
Credit card	**(204)**	(188)	(172)	(169)	(150)
Business and government	**(193)**	(224)	(330)	(296)	(225)
	(710)	(763)	(894)	(874)	(758)
United States					
Residential mortgage	**–**	(4)	(1)	(9)	–
Personal	**(19)**	(28)	(17)	(7)	–
Credit card	**(3)**	(4)	(6)	(2)	–
Business and government	**(129)**	(131)	(467)	(215)	(41)
	(151)	(167)	(491)	(233)	(41)
Other International					
Business and government	**(140)**	(52)	(39)	(18)	(40)
LDC exposures	**–**	–	(33)	–	–
	(140)	(52)	(72)	(18)	(40)
	(1,001)	(982)	(1,457)	(1,125)	(839)
Recoveries					
Canada					
Personal	**65**	66	68	66	44
Credit card	**38**	36	37	44	48
Business and government	**80**	53	72	58	48
	183	155	177	168	140
United States					
Personal	**3**	2	2	1	–
Credit card	**1**	1	1	–	–
Business and government	**24**	10	7	5	–
	28	13	10	6	–
Other International					
Business and government	**5**	2	11	11	22
	5	2	11	11	22
	216	170	198	185	162
Net write-offs	**(785)**	(812)	(1,259)	(940)	(677)
Adjustments	**(11)**	(59)	116	238	61
Allowance at end of year	**$ 1,714**	$2,164	$ 2,314	$ 2,392	$1,975
Allocation of allowance (1)					
Canada					
Residential mortgage	**$ 23**	$ 33	$ 35	$ 45	$ 46
Personal	**384**	395	429	447	403
Credit card	**188**	147	147	147	88
Business and government	**502**	682	711	791	664
	1,097	1,257	1,322	1,430	1,201
United States					
Residential mortgage	**3**	3	6	4	3
Personal	**55**	42	36	33	–
Credit card	**3**	4	5	5	–
Business and government	**234**	319	409	434	184
	295	368	456	476	187
Other International					
Residential mortgage	**1**	1	–	–	8
Business and government	**44**	191	174	147	138
	45	192	174	147	146
Allocated allowance for loan losses	**1,437**	1,817	1,952	2,053	1,534
Unallocated allowance for loan losses	**207**	238	251	225	337
Total allowance for loan losses	**1,644**	2,055	2,203	2,278	1,871
Allowance for off-balance sheet and other items (2)	**70**	109	109	109	98

Allowance for tax-exempt securities	–	–	2	5	6
Total allowance for credit losses	**$ 1,714**	$2,164	$ 2,314	$ 2,392	$1,975

(1) The allowance for loan losses includes an amount for the allocated general allowance, which has been allocated to loan categories. These amounts total $950 million (2003 – $1,060 million; 2002 – $1,060 million; 2001 – $1,076 million; 2000 – $765 million) and have been allocated as follows: for Canada – residential mortgage $12 million (2003 – $21 million; 2002 – $20 million; 2001 – $21 million; 2000 – $18 million), personal $276 million (2003 – $266 million; 2002 – $266 million; 2001 – $266 million; 2000 – $207 million), credit card $188 million (2003 – $147 million; 2002 – $147 million; 2001 – $147 million; 2000 – $88 million), business and government $295 million (2003 – $385 million; 2002 – $386 million; 2001 – $385 million; 2000 – $321 million), and for United States – residential mortgage $2 million (2003 – $2 million; 2002 – $3 million; 2001 – $2 million; 2000 – $2 million), personal $53 million (2003 – $33 million; 2002 – $22 million; 2001 – $26 million; 2000 – nil), credit card $3 million (2003 – $4 million; 2002 – $5 million; 2001 – $5 million; 2000 – nil), and business and government $114 million (2003 – $187 million; 2002 – $196 million; 2001 – $192 million; 2000 – $110 million), and for Other International – business and government $7 million (2003 – $15 million; 2002 – $15 million; 2001 – $32 million; 2000 – $19 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 19 Foreign outstandings (1)

(C$ millions, except percentage amounts)	2004	% of total assets	2003	% of total assets	2002	% of total assets
United States – Banks	**$ 5,355**		$ 7,204		$ 5,838	
– Government	**6,917**		7,970		3,257	
– Other	**50,774**		57,086		62,210	
	63,046	**14.7%**	72,260	17.9%	71,305	18.9%
Western Europe – Banks	**25,673**		24,371		21,419	
– Government	**2,717**		2,792		1,286	
– Other	**12,969**		12,119		9,152	
	41,359	**9.6**	39,282	9.8	31,857	8.5
Central/Eastern Europe, Middle East and Africa	**138**	**–**	198	.1	247	.1
Latin America	**585**	**.1**	865	.2	1,607	.4
Caribbean	**2,912**	**.7**	2,692	.7	3,045	.8
Asia	**2,712**	**.6**	5,791	1.4	3,645	1.0
Australia and New Zealand	**2,897**	**.7**	2,425	.6	2,842	.8
Allowance for loan losses (2)	**(446)**	**(.1)**	(678)	(.2)	(760)	(.2)
Total	**$113,203**	**26.4%**	$122,835	30.5%	$113,788	30.2%

(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.

Table 20 Risk profile

(C$ millions, except percentage amounts)	2004	2003	2002	2001	2000
Percentage of loans to total loans (1)					
Canada (2)					
Residential mortgage	**35%**	35%	32%	30%	33%
Personal	**13**	13	12	12	15
Credit card	**3**	2	2	2	2
Business and government	**24**	22	26	30	32
	75	72	72	74	82
United States	**14**	15	16	15	9
Other International	**11**	13	12	11	9
Total	**100%**	100%	100%	100%	100%
Gross impaired loans					
Beginning of year	**$ 1,745**	$2,288	$ 2,465	$ 1,678	$1,704
Net additions	**515**	439	1,280	1,912	813
Write-offs and adjustments	**(1,001)**	(982)	(1,457)	(1,125)	(839)
End of year	**$ 1,259**	$1,745	$ 2,288	$ 2,465	$1,678
Net impaired loans as a % of related loans, acceptances and reverse repurchase agreements Canada (2)					
Residential mortgage	**.11%**	.13%	.13%	.18%	.26%
Personal	**.23**	.32	.46	.50	.20
Business and government	**.54**	.90	.98	1.15	.97
	.26	.41	.49	.63	.52
United States	**.80**	.68	1.03	1.14	.43
Other International	**.25**	.52	1.07	.43	.22
Total	**.34%**	.46%	.65%	.69%	.49%
Allowance for credit losses					
Specific	**$ 487**	$ 757	$ 894	$ 951	$ 747
Country risk	**–**	–	–	31	28
General allowance					
General allocated (3)	**1,020**	1,169	1,169	1,185	863
General unallocated	**207**	238	251	225	337
Total general allowance	**1,227**	1,407	1,420	1,410	1,200
Total	**$ 1,714**	$2,164	$ 2,314	$ 2,392	$1,975
As a % of loans, acceptances and reverse repurchase agreements	**.7%**	1.0%	1.0%	1.1%	1.0%
As a % of impaired loans (coverage ratio), excluding LDCs	**131%**	118%	96%	93%	112%
Provision for credit losses					
Specific	**$ 521**	$ 721	$ 1,065	$ 1,049	$ 571
General provision					
General allocated	**(147)**	6	(22)	205	73
General unallocated	**(28)**	(6)	22	(135)	47
Total general provision	**(175)**	–	–	70	120
Total	**$ 346**	$ 721	$ 1,065	$ 1,119	$ 691
Credit derivative gains	**–**	(29)	(102)	–	–
Credit derivative losses	**–**	–	69	–	–
Total provision net of credit derivative gains/losses	**$ 346**	$ 692	$ 1,032	$ 1,119	$ 691
Specific provision net of credit derivative gains/losses as a % of average loans, acceptances and reverse repurchase agreements	**.23%**	.32%	.49%	.53%	.32%
Specific provision as a % of average loans and acceptances	**.28%**	.41%	.62%	.62%	.36%
Specific provision as a % of related average loans, acceptances and reverse repurchase agreements					
Canada					
Residential mortgage	**.01**	.01	–	.01	–
Personal	**.73**	.90	1.05	.94	1.12
Credit card	**2.92**	2.92	3.10	2.73	2.87
Business and government	**.06**	.25	.20	.52	.22
	.26	.34	.33	.45	.36
United States (4)	**.33**	.34	1.38	–	–
Other International	**(.04)**	.30	.47	.74	.13
Total specific provision	**.23%**	.33%	.51%	.53%	.32%
Total provision for credit losses	**.15**	.33	.51	.56	.38

Net write-offs (excluding LDCs) as a % of average loans, acceptances and reverse repurchase agreements	**.35%**	.37%	.58%	.47%	.38%
Net write-offs as a % of average loans, acceptances and reverse repurchase agreements	**.35%**	.37%	.60%	.47%	.38%

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

(4) As the information is not reasonably determinable, percentages for years prior to 2002 are not presented.

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:

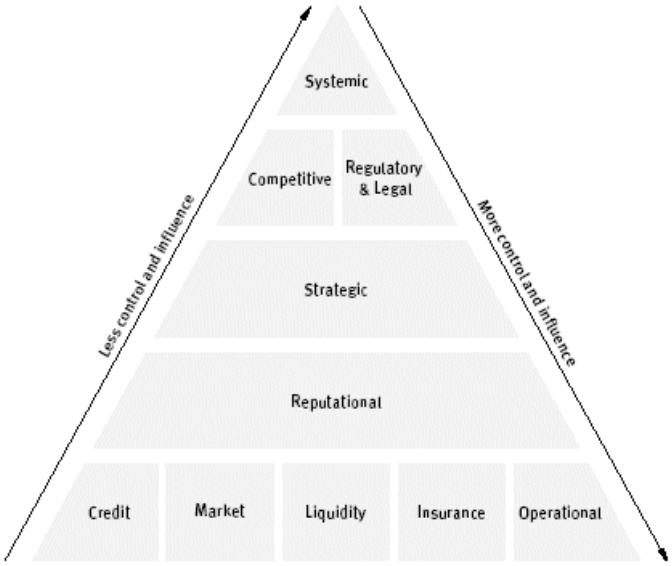
- Ensure alignment between risk appetite and business strategies
- Attract, develop and retain high-calibre risk management professionals
- Enhance communication of risk and risk appetite throughout the enterprise
- Invest in capabilities to better measure, understand and manage risk
- Strengthen the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

Our business activities expose us to the risks outlined in the risk pyramid. 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** is the risk inherent in the design and underwriting of insurance policies. The principal sources of Insurance risk are product design and pricing risk and insurance underwriting 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 legal or regulatory proceedings.

Risk Pyramid



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.

The Risk Pyramid: An organizational perspective



Risk management professionals work in partnership with the business segment and corporate functions 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 of Directors (the 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 comprises the Board of Directors, the Conduct Review and Risk Policy Committee (CR&RPC) and Group Risk Committee (GRC). CR&RPC is a board committee while GRC is a senior executive 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 oversee such matters as policies, portfolios, governance, ethics, compliance and various specific risk areas (i.e., credit, market, liquidity, insurance and operational). In 2004, the Structured Transactions Oversight Committee was established to provide risk oversight through the review of structured transactions and complex credits with potentially significant reputational, legal, regulatory, accounting or tax risks.

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 that ensures all risks are mitigated or that control gaps are addressed in a timely manner
- Maintain a comprehensive enterprise-wide risk policy framework to ensure effective creation, approval and communication of policies and related documents
- 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

Business segments

The base level of the organizational perspective risk pyramid comprises the business segments. Their responsibilities include:

- Ownership and accountability of the risks of the business
- Alignment of business strategy with the corporate risk culture, risk appetite and policy
- Identification, understanding, mitigation and management of the risks being taken

BASEL II

Basel II is a new capital adequacy framework that is intended to strengthen risk management and market discipline, and thereby the safety and soundness of the international financial industry. The Basel Committee on Banking Supervision, consisting of central banks and bank supervisors from 13 countries, approved the final text of the new framework in June 2004, after a five-year consultation period. This new accord will replace the current 1988 Basel Accord.

The next step for the countries involved with Basel II is implementation. The new framework, which is comprehensive and far-reaching, provides a menu of approaches to calculate regulatory capital. The implementation timetable mandates compliance with the new rules by the end of 2006 for the basic approach and the end of 2007 for the advanced approaches.

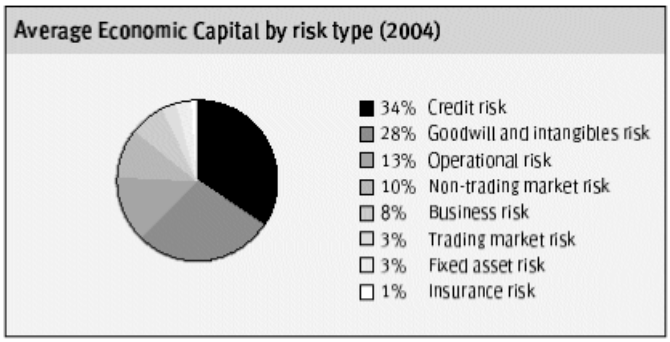
We have created a Basel Program Management Office, which is responsible for co-ordinating the implementation initiative and ensuring enterprise-wide compliance with Basel II. While this is not a transformational initiative, there will be opportunities to achieve internal efficiencies through the modernization and upgrading of risk practices, policies, processes and technologies, which will enable us to manage credit, market and operational risk more efficiently and effectively.

ECONOMIC CAPITAL

Economic Capital (EC) is management's estimate of the amount of common equity required to underpin all our 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 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 capital management. EC analysis is intended to represent the shareholder's perspective and drives the optimization of shareholder returns in terms of risk/reward. Calculation and attribution 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, improvements are made to these methodologies with the changes applied prospectively.

EC is calculated for various risk types. Credit, market (trading and non-trading), 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. For further details on goodwill and other intangibles, see Note 4 on page 86A. EC for liquidity risk is not calculated separately but is embedded within the other risk types. The total required EC 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 return on equity calculations.

The following chart represents the proportionate EC levels by risk type in fiscal 2004. Compared to 2003, there has been no significant change by risk type. Credit risk and goodwill and intangibles risk continue to be our largest risks. The goodwill risk is largely attributable to acquisitions we have made in the U.S. over the past several years.



The following sections describe 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. Vigorous testing methods are in place to monitor the performance of the credit models. During 2004, 35% of our credit scoring models were enhanced to improve their ability to identify risk.

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 to ensure they accurately represent the risk profile of the counterparty they are attributed to and to ensure consistency in ratings across sector groups.

In addition to control processes for credit granting and ongoing monitoring, we have established risk limits to ensure that we do not become overexposed 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 senior management is aware of shifts in loan quality and portfolio performance. Critical components of this reporting framework include a dashboard for consumer and small business lending, and classification reporting and expected loss monitoring for commercial and corporate lending.

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 4% of consumer and small business loans outstanding at October 31, 2004, were rated 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 that is 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 $2.1 billion from a year ago to $1.8 billion at October 31, 2004, and are at an all time low since this risk measurement process was introduced in 2002.

In addition, current one-year expected losses on our commercial and corporate loan portfolio provide a good indicator of credit quality trends. Expected loss is compared to long-term or through-the-cycle expected losses to assess where we are in the credit cycle. This analysis is performed at the single name and industry sector levels. The portfolio is further analyzed through stress testing and sensitivity analysis.

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 loss 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 2004, an additional limit on single-name exposure based on EC was put in place. This EC limit takes into account such factors as size, term, rating, sector, geography, collateral and seniority. In certain cases, loans are syndicated in order to reduce overall exposure to a single name. In the event of a limit exception, single names with approved limit exceptions are reported to senior management and to the CR&RPC in summary form on a quarterly basis. For certain exceptions, business units must provide a detailed action plan, including the expected timeframe for bringing the exposure back within the limit.

Each country and sector is assigned a risk rating and an exposure limit. The 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, 2004, credit mitigation was in place to cover $1.0 billion in corporate credit exposure.

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 $.6 billion in 2004.

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.

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 or expected differences between their buying and selling prices or to lock in arbitrage profits.

Components of market 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 principal in conjunction with our investment banking activities and also from our trading activities, which include the offering of tailored equity derivative products to clients, arbitrage trading and proprietary trading.

Foreign exchange rate and commodity price risk is the potential adverse impact on our earnings and economic value due to currency rate and commodity price movements and volatilities. In our proprietary positions, we are exposed to both the spot and forward foreign exchange markets, the derivatives markets and commodities markets.

Table 21 Market risk measures – Trading activities (1)

(C$ millions)	2004 Year-end	2004 High	2004 Average	2004 Low	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**	**$20**	**$ 8**	**$4**	$ 4	$12	$ 7	$4	$ 7	$12	$ 8	$6
Foreign exchange and commodity	**2**	**5**	**2**	**1**	2	7	3	1	2	9	3	1
Interest rate (2)	**8**	**14**	**9**	**6**	8	13	9	6	11	14	6	2
Debt specific (3)	**2**	**2**	**1**	**1**	–	–	–	–	–	–	–	–
Global VAR (4)	**$ 10**	**$25**	**$ 13**	**$8**	$ 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) Also includes credit spread risk.

(3) Prior to 2004, interest rate and debt specific risk were reported in aggregate as interest rate risk.

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

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.

Debt specific risk is the potential adverse impact on our earnings and economic value due to changes in the creditworthiness and credit ratings of issuers of bonds and money market instruments, or the names underlying credit derivatives.

Credit spread risk is the potential adverse impact on our earnings and economic value due to changes in the credit spreads associated with issuers of bonds and money market instruments, or the names underlying credit derivatives.

We are exposed to debt specific and credit spread risk through our positions in bonds, money market instruments and credit derivatives.

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 operations areas. We employ an extensive set of principles, rules, controls and limits, which we believe conform to industry best practice. Our market risk management framework is designed to ensure that our risks are appropriately diversified on a global basis. The Market Risk group is a corporate function within Group Risk Management that is independent of the trading operations and is responsible for the daily monitoring of global trading risk exposures via risk measures such as Value-At-Risk (VAR), sensitivity analysis and stress testing. The Market Risk group uses these risk measures to assess global risk-return trends and to alert senior management in RBC Capital Markets and Group Risk Management and the CR&RPC of adverse trends or positions.

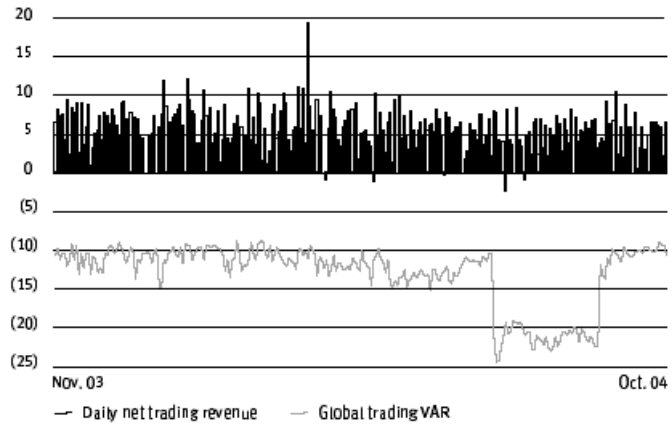
VAR, in simple terms, is a statistical technique that measures the range of market losses over a specified holding period expressed in terms of a specific confidence interval. VAR is the worst-case loss expected over the period within the probability set out by the confidence interval. Larger losses are possible, but with low probability. For example, our VAR model is based on a 99% confidence interval. Therefore, a portfolio with a VAR of $15 million held over one day would have a 1 in 100 chance of suffering a loss greater than $15 million in that day.

To ensure VAR effectively captures our market risk, we continuously monitor and enhance our methodology. The method used to attribute the components of global VAR to the various risk categories was enhanced in 2004. Any secondary interest rate risk related to foreign exchange of equity products is now isolated and included in the interest rate category. This change did not affect overall global VAR.

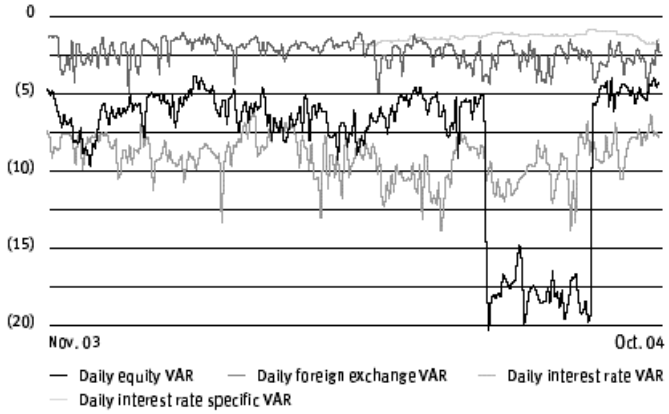
Daily back-testing against hypothetical profit and loss is used to monitor the statistical validity of VAR models. In fiscal 2004, there were no instances of the hypothetical net loss exceeding the VAR.

The year-end, high, average and low VAR by major risk category for our combined trading activities for the years ended October 31, 2004 and 2003, are shown in Table 21 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.

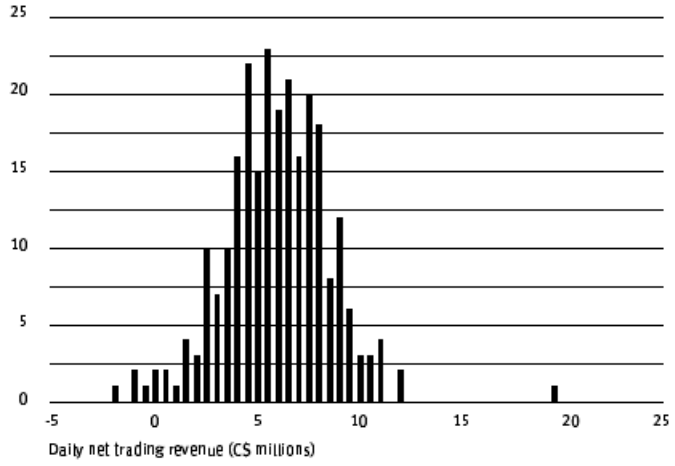
DAILY NET TRADING REVENUE VS GLOBAL TRADING VAR
(C$ millions)



GLOBAL VAR BY MAJOR RISK CATEGORY
(C$ millions)



HISTOGRAM OF DAILY NET TRADING REVENUE
(number of days)



As the table illustrates, the average global VAR in 2004 was $13 million, unchanged from 2003. The largest contributor to VAR is interest rate risk. The increase in equity VAR observed during the latter part of the third quarter and the beginning of the fourth quarter was due to higher equity trading inventory arising from equity underwriting activity. This increase in VAR was anticipated and pre-approved. By year-end, it returned to its typical historical range.

The first graph on page 60A compares the global trading VAR amounts to the relevant daily net trading revenue for the year ended October 31, 2004. During fiscal 2004, we experienced five 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.

In addition to VAR, extensive sensitivity analysis and stress testing are performed, monitored and reported on a daily basis as a supplementary control to 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 is 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 our exposure to potential political, economic or other disruptive events.

LIQUIDITY RISK

The objective of the liquidity management function 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 in place a comprehensive liquidity management framework comprising policies, procedures, methodologies and measurements. During the year, we operated under normal conditions and within approved net cash flow limits.

A detailed discussion of liquidity management is provided in the Liquidity management section on page 66A.

INSURANCE RISK

Insurance risk is the risk inherent in the design and underwriting of insurance policies. The principal sources of insurance risk are product design and pricing risk and insurance underwriting risk.

Product design and pricing risk relates mainly to the possibility of differences between the assumptions made in pricing the insurance contract and actual subsequent company experience. This type of risk is especially evident in long-term insurance contracts under which our ability to adjust premiums or charges is limited. This risk is managed through detailed experience studies to support pricing assumptions, as well as scenario testing by our actuaries. In addition, a portion of policy benefits are held on-balance sheet allowing for misestimation and deterioration of assumptions. And, finally, reinsurance can be used to mitigate certain estimates in the pricing of a product.

Insurance underwriting risk relates to the mis-selection of the risks to be insured or an incorrect assessment of the frequency and/or amount of the future claims associated with those risks. To mitigate this risk, policy retention limits are in place that vary by market and geography. In addition, reinsurance mitigates exposure to large claims.

A dashboard reporting mechanism is in place to monitor the various insurance businesses we conduct. The performance of each business is assessed against various risk measures and assigned one of the following ratings: concern, monitor or good. At year-end, there were no businesses rated concern. To monitor any shifts in trending, further assessment criteria are applied to each portfolio to generate one of the following quality trend indicators – declining, stable or improving.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, technology, and human performance or from external events. We experienced two notable operational losses during the year. The first item is related to a processing disruption, resulting from a programming update to one of our computer systems. The disruption impacted our ability to promptly reflect some transactions in client account balances and affected most of our business segments. We also experienced a loss on certain mortgage loans that are believed to have been fraudulently originated in 2001 and 2002.

To mitigate operational risks across the organization an Operational Risk Management Framework has been developed. This framework ensures that the appropriate infrastructure, controls, systems and people are in place throughout the organization. It encompasses a common language of risk to enable enterprise-wide programs, assessment techniques and management tools. Complementing these are strong principles of corporate governance, our corporate values and code of conduct, independent risk-based internal auditing and the existence of compliance functions at the corporate and business levels. Three key components of our operational risk framework are (i) Risk and Control Self-Assessment (RCSA), (ii) Loss Event Database (LED) and (iii) Key Risk Indicators (KRIs).

RCSA is a formal process to identify, document, assess and manage operational risks throughout the organization. To facilitate the RCSA, each business and functional area has been divided into its component activities to define the entities to be assessed. Each entity completes a self-assessment to determine key risks, mitigating controls, the potential impact of a problem, the probability of an incident occurring and the acceptable level of risk. Where residual exposure is judged unacceptable, the group identifies root causes and agrees on an action plan and timeline.

The LED is a centralized database designed to capture information pertaining to operational losses with a financial impact exceeding $10,000. Key information captured, such as the frequency, severity and nature of operational loss events, is used to better understand the root causes of operational failures, resulting in improved risk mitigation strategies. Data collected on operational events will also support the determination and

attribution of capital for operational risk as the implementation of Basel II moves forward.

KRIs are used to assist us in recognizing and addressing our operational risk exposures and potential losses. The use of KRIs is a long-standing practice in several of our businesses and functional areas. In many cases, these are formal programs, used extensively as both business and risk management tools.

While operational risk is not a new risk, increased focus and renewed rigour in its management are evident throughout the financial services industry, be it with respect to capital reform or changing expectations for managing and reporting this risk. The initiatives outlined are key to our strategies for effectively managing operational risk. We will continue to refine and enhance these, as well as pursue research and development to ensure that we are at the forefront of operational risk management best practices.

FINANCIAL PRIORITY: BALANCE SHEET AND CAPITAL MANAGEMENT

Highlights

- Consumer loans up 10%
- Deposits up 5%
- Internally generated capital of $1.5 billion
- Tier 1 and Total capital ratios 8.9% and 12.4%, respectively
- Common share repurchases of 14.6 million and issuances of 3.3 million, for a net reduction of 11.3 million

Total assets were $429.2 billion at October 31, 2004, up $26.2 billion or 6% from October 31, 2003.

Securities were unchanged from a year ago.

Loans (before allowance for loan losses) were up $15.7 billion or 9%, reflecting strong loan demand in a low interest rate environment. Consumer loans (residential mortgage, personal and credit card loans) were up $11.7 billion or 10%, with residential mortgages up $5.4 billion or 7% (after $5.0 billion of securitizations during the year), personal loans up $4.7 billion or 14% and credit card balances up $1.6 billion or 34%. Business and government loans were up $4.0 billion or 7% (after $.5 billion of securitizations during the year), largely due to a growth in securities borrowing activity.

Other assets were up $7.5 billion to $68.9 billion. This was largely driven by higher derivative-related amounts due to an increase in value of currency contracts and an increase in receivables from brokers and dealers due to a growth in business activity.

Deposits were $271.0 billion, up $11.8 billion or 5% from October 31, 2003. Interest-bearing deposits were up $7.8 billion or 3% and non-interest-bearing deposits were up $4.0 billion or 15%. Personal deposits were up $6.3 billion, business and government deposits were up $2.2 billion and bank deposits were up $3.3 billion. Further details on deposits are provided in Note 10 on page 91A.

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 $1.5 billion at October 31, 2004, and $1.9 billion at October 31, 2003. The estimated fair value of deposits owed to clients exceeded book value by $1.0 billion at October 31, 2004, and $1.4 billion at October 31, 2003. The net amount of the fair value excess of loans due from clients and the fair value excess of deposits due to clients was $499 million at October 31, 2004, as shown in Note 23 on page 107A.

Other liabilities increased $12.6 billion to $129.5 billion. The growth was largely caused by an increase in derivative-related amounts due to a decline in the value of currency contracts and an increase in Other – other liabilities. Other – other liabilities increased due to a growth in securities lending activities and higher payables to broker-dealers due to a growth in business activity.

Subordinated debentures (subordinated indebtedness) increased by $1.9 billion to $8.1 billion due to issuances exceeding redemptions as described on page 63A in the Capital management section.

Non-controlling interest in subsidiaries consists primarily of our interest in 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 $18.2 billion at October 31, 2004, down $.2 billion from a year ago. The decrease reflected a $.8 billion increase in retained earnings offset by a $.7 billion decline in foreign currency translation adjustments, and a $.3 billion deduction from shareholders' equity for treasury stock relating to shares acquired and held by certain employee compensation vehicles and other subsidiaries for reasons other than cancellation.

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 $285 million to pension plans. Note 17 on page 98A describes the funding position for accounting purposes and the sensitivity of key assumptions.

As of November 30, 2004, we had 644,069,606 common shares outstanding. In addition, as of November 30, 2004, we had 12,000,000 First Preferred Shares Non-cumulative Series N, 6,000,000 First Preferred Shares Non-cumulative Series O, 4,000,000 First Preferred Shares US$ Non-cumulative Series P and 10,000,000 First Preferred Shares Non-cumulative Series S outstanding. Currently, subject to the approval of the Toronto Stock Exchange, we may convert the First Preferred Shares Series N, Series O and Series P into our common shares. As of August 24, 2006, subject to the approval of the Toronto Stock Exchange, we will be permitted to convert the First Preferred Shares Series S into our common shares. As of November 30, 2004, the aggregate number of common shares issuable on the conversion of the First Preferred Shares Series N, Series O and Series P by us was 9,757,728.

CAPITAL MANAGEMENT

We actively manage our capital to balance the desire to maintain strong capital ratios and high debt ratings with the need to provide strong returns to our shareholders. In striving to achieve this balance, we consider the requirements of regulators, rating agencies, depositors and shareholders, as well as our future business plans, peer comparisons and our relative position to board-approved medium-term capital ratio goals. Additional considerations include the costs and terms of current and potential capital issuances and projected capital requirements.

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 2004, we achieved strong internal capital generation, which enabled us to continue repurchasing shares and redeeming some of our outstanding capital instruments. Our debt ratings continue to favourably affect our ability to raise capital at competitive prices.

Capital management activity

In 2004, the number of outstanding common shares decreased by 11.3 million. We repurchased 14.6 million common shares for $892 million, of which 8.2 million shares were repurchased for $504 million under a normal course issuer bid that expired in June 2004; and 6.4 million common shares were repurchased for $388 million under a normal course issuer bid that commenced on June 24, 2004, for a one-year period and that allows for the repurchase of up to 25 million common shares, representing approximately 3.8% of outstanding common shares. We issued 3.3 million common shares for $119 million in connection with the exercise of employee stock options.

During the year, we issued $2.5 billion of subordinated debentures through the Canadian Medium Term Notes Program that qualify as Tier 2B capital for regulatory purposes as follows: $1 billion on November 3, 2003, $500 million on January 27, 2004, and $1 billion on April 13, 2004. In addition, we issued $600 million of subordinated debentures that qualify as Tier 2A capital on June 18, 2004. During the year, we redeemed a total of $1,025 million of subordinated debentures that qualify as Tier 2B capital as follows: $350 million on April 12, 2004, $350 million on June 11, 2004, $175 million on July 7, 2004, and $150 million on October 12, 2004.

Dividends

Our common share dividend policy reflects our earnings outlook, desired payout ratios and the need to maintain adequate levels of capital to fund business opportunities. The targeted common share dividend payout ratio was raised from 35–45% to 40–50% in the first quarter of this year. In 2004, the dividend payout ratio was 47%, up from 38% a year ago. Common share dividends paid during the year were $2.02, up 17% from a year ago.

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 22.

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 23 on page 64A, 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 22 Capital ratios (1)

(C$ millions, except percentage amounts and assets-to-capital multiple)	2004	2003	2002
Tier 1 capital			
Common equity	**$ 17,349**	$ 17,543	$ 17,238
Non-cumulative preferred shares	**832**	832	1,545
Non-controlling interest in subsidiaries			
RBC Capital Trust	**1,400**	1,400	1,400
RBC Capital Trust II	**900**	900	–
Other	**27**	27	29
Goodwill	**(4,236)**	(4,443)	(4,832)
	16,272	16,259	15,380
Tier 2 capital			
Permanent subordinated debentures (3)	**954**	396	467
Other subordinated debentures (2), (3)	**7,131**	5,847	6,147
General allowance (4)	**1,227**	1,407	1,420
	9,312	7,650	8,034
Investment in insurance subsidiaries	**(2,532)**	(2,143)	(2,014)
Other substantial investments	**(302)**	(371)	(368)
First-loss facility	**(17)**	(21)	(20)
Total capital	**$ 22,733**	$ 21,374	$ 21,012
Risk-adjusted assets	**$183,409**	$166,911	$165,559
Capital ratios			
Common equity to risk-adjusted assets	**9.5%**	10.5%	10.4%
Tier 1 capital to risk-adjusted assets	**8.9%**	9.7%	9.3%

Total capital to risk-adjusted assets	**12.4%**	12.8%	12.7%
Assets-to-capital multiple (5)	**18.1**	18.2	17.3

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

(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) In 2004, we issued $3.1 billion (2003 – nil; 2002 – US$400 million) of subordinated debentures, which increased Total capital by the same amount. We redeemed $1,025 million (2003 –$100 million; 2002 – $400 million) of subordinated debentures.

(4) The general allowance for credit losses may be included in Tier 2 capital up to a maximum of .875% (2003 – .875%; 2002 – .875%) of risk-adjusted assets.

(5) Total assets and specified off-balance sheet financial instruments, as prescribed by OSFI, divided by Total capital.

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, 2004, our Tier 1 and Total capital ratios were 8.9% and 12.4%, respectively, compared to 9.7% and 12.8% as at October 31, 2003. Throughout 2004, 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. 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. As at October 31, 2004, our assets-to-capital multiple was 18.1 times, which remains below the maximum permitted by OSFI and compares to 18.2 times as at October 31, 2003.

Economic Capital

We also calculate capital requirements utilizing risk assessment methodologies, attributing risk capital to business units in proportion to the risk inherent in their business activities. Known as Economic Capital, this non-GAAP measure differs from regulatory capital in that the amount of capital required is based on in-house models used to determine credit, liquidity, operational, market and other risk, as opposed to regulatory guidelines established by OSFI and Canadian GAAP financial information. Economic Capital levels have been consistently below Total regulatory capital indicating that we have adequate regulatory capital underpinning for the risks it assumes. An overview of Economic Capital is found on page 58A.

Pending developments

Changes to the Basel II agreement for assessing capital adequacy were finalized in June of this year. The implementation will begin with a parallel run in fiscal 2006 and full compliance is expected by the end of 2007. We are actively preparing for the implementation of the Basel II framework as discussed on page 58A, in the Risk management section.

Several changes in accounting principles have either been introduced or are being proposed in the areas of consolidation of variable interest entities (as described in Note 1 on page 83A, and in Note 13 on page 93A), classification of certain financial instruments as either equity or liabilities, and accounting determination of certain asset balances. These changes could significantly affect our reporting of assets and capital instruments. 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 23 Risk-adjusted assets (1)

(C$ millions, except percentage amounts)	Balance sheet amount	Weighted average of risk weights (2)	Risk-adjusted balance 2004	Risk-adjusted balance 2003
Balance sheet assets				
Cash and deposits with banks	$ 11,096	17%	**$ 1,833**	$ 2,026
Securities				
Issued or guaranteed by Canadian or other OECD governments	29,536	–	**30**	28
Other	99,410	7%	**7,062**	4,557
Residential mortgages (3)				
Insured	36,321	1%	**390**	377
Conventional	47,822	51%	**24,561**	21,951
Other loans and acceptances (3)				
Issued or guaranteed by Canadian or other OECD governments	14,523	19%	**2,828**	3,778
Other	128,923	69%	**88,412**	82,169
Other assets	61,565	13%	**7,852**	6,996
	$ 429,196		**$132,968**	$121,882

	Contract amount	Credit conversion factor	Credit equivalent amount			
Off-balance sheet financial instruments						
Credit instruments						
Guarantees and standby letters of credit						
Financial	$ 15,097	100%	$15,097	79%	**$ 11,918**	$ 13,201
Non-financial	3,523	50%	1,761	85%	**1,503**	1,519
Documentary and commercial letters of credit	592	20%	118	39%	**46**	399
Securities lending	27,055	100%	27,055	8%	**2,158**	1,087
Commitments to extend credit						
Original term to maturity of 1 year or less	45,682	–	–	–	**–**	–
Original term to maturity of more than 1 year	28,912	50%	14,456	96%	**13,828**	13,357
Uncommitted amounts	60,972	–	–	–	**–**	–
Note issuance/revolving underwriting facilities	23	50%	12	100%	**12**	12

	$ 181,856	$58,499		**$ 29,465**	$ 29,575
Derivatives (4)	2,522,309	33,954	26%	**8,739**	6,320
Total off-balance sheet financial instruments	$2,704,165	$92,453		**$ 38,204**	$ 35,895
Total specific and general market risk				**12,237**	9,134
Total risk-adjusted assets				**$183,409**	$166,911

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

(2) Represents the weighted average of counterparty risk weights within a particular category.

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

(4) Includes non-trading credit derivatives given guarantee treatment for credit risk capital purposes.

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 71A to 72A and the Risk management discussion on pages 57A to 61A. Additionally, off-balance sheet financing arrangements are often integral to both liquidity and capital resources, and are discussed in detail on pages 68A to 71A 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 60A, 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 operating limits for interest rate risk. We endeavour to adopt the industry's best practices and carry out the following functions:

Policy

The CR&RPC approves the global policies governing interest rate risk management. The policies define the management standards and 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 point 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 net present value of our assets, liabilities and off-balance sheet instruments.

Interest rate funds transfer pricing

We use a funds transfer pricing mechanism at the transaction level to transfer interest rate risk to Corporate Treasury and to quantify the spread earned by the various business units. 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 the impact of 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 focus on modeling the sensitivity of the value of deposits with an indefinite maturity 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. Key Rate Analysis is utilized as a primary tool for risk management. It 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 the risks to the value of equity and net interest income.

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 different components of the balance sheet to 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.

We continually monitor the effectiveness of our interest rate risk mitigation activity within Corporate Treasury on a value basis. As a part of this exercise, the model assumptions are validated against actual client behaviour.

Table 24 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

Table 24 Market risk measures – Non-trading activities (1)

	2004		2003		2002	
(C$ millions)	**Economic value of equity risk**	**Net interest income risk**	**Economic value of equity risk**	**Net interest income risk**	**Economic value of equity risk**	**Net interest income risk**
100bp increase	**$ (412)**	**$ 70**	$ (423)	$ 115	$ (309)	$ 104
100bp decrease	**215**	**(150)**	261	(126)	145	(151)
200bp increase	**$ (882)**	**$ 107**	$ (869)	$ 207	$ (662)	$ 190
200bp decrease	**405**	**(314)**	545	(294)	345	(327)

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

measures are as of October 31, 2004, 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 the interest rate sensitivity of all the liabilities is matched by a portion of the assets, with the residual assets – representing the notional investment of equity – invested evenly over a five-year horizon. This establishes our preferred trade-off between the risk to the value of our equity and the risk to the net interest income due to interest rate changes.

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.

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 GRC 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. The Audit Committee and the CR&RPC approve our liquidity management framework and significant related policies, and the board 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, we manage our liquidity position on a consolidated basis. 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 estimated 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, revise 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 a 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 model 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 for overall group exposure and by major currency and geographic location that are approved by the GRC and confirmed by the Audit Committee of the board. 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 represent a dedicated and reliable source of emergency funding since they must be traded in broad and active secondary markets and/or be eligible collateral for central bank borrowings and can, therefore, be readily sold or pledged for secured borrowing. In our base case stress scenario, 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 activities that encumber or otherwise restrict availability of assets are subject to a board-approved, enterprise-wide pledging framework, which imposes a global, risk-adjusted limit on pledged assets. Assets that are encumbered, dedicated to specific requirements or needed for collateral purposes 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 $187 billion or 43% of total assets at October 31, 2004, as compared to $178 billion or 44% at October 31, 2003. Liquid assets are primarily diversified and

highly rated marketable securities. As at October 31, 2004, $18 billion of assets had been pledged as collateral, up from $14 billion at October 31, 2003. We have another $47 billion in obligations related to assets sold under repurchase agreements and securities sold short at October 31, 2004, compared to $46 billion at October 31, 2003. For further details, see Note 20 on page 102A.

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 to engage in certain collateralized business activities on a cost-effective basis is primarily dependent upon maintaining competitive credit ratings, which in turn is largely determined by the quality of our earnings, the adequacy of our capital and the effectiveness of our risk management programs. We estimate, based on periodic reviews of ratings triggers embedded in our existing businesses and of our funding capacity sensitivity that a minor downgrade would not materially influence our funding access, collateral usage and associated costs. However, 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 collateral requirements and on the results of our operations and financial condition.

Deposit profile

The composition of our global deposit liabilities is summarized in Note 10 on page 91A. 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 the principal source of consistently dependable funding while certain commercial and institutional client groups also maintain relational balances with low volatility profiles. Taken together, these depositors represent a highly stable supply of core deposits under most contemplated conditions as they typically are less responsive to market developments than transactional lenders and investors due to the impact of deposit insurance and to extensive and, at times, exclusive relationships with us. Rather than contractual or repricing terms, expected behavioural characteristics, based on observed balance patterns and on assumed reactions to a range of circumstances for various deposit categories, are used to define core deposits. As at October 31, 2004, our core deposits represented about 60% of our total 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 our long-term funding activities, including currency mix and market concentration decisions. 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. To achieve these objectives, we operate debt issuance programs in Canada, the United States and Europe. During fiscal 2004, we continued to expand our long-term funding base by issuing, either directly or through our subsidiaries, $4.2 billion of senior deposit notes in various currencies and markets. Total long-term funding outstanding on October 31, 2004, was $15.2 billion, compared to $14.2 billion on October 31, 2003. Outstanding senior debt containing ratings triggers, which would accelerate repayment, constitutes a very small proportion of our overall outstanding debt.

We use commercial mortgage, residential mortgage and credit card receivable-backed securitization programs as alternative sources of funding and for liquidity and asset/liability management purposes. During 2004, we diversified our funding sources by establishing Real Estate Asset Liquidity Trust, a commercial mortgage-backed issuance vehicle. We sold $242 million of commercial mortgages to this vehicle as well as $244 million of commercial mortgages to a third-party securitization special purpose entity during the year. In addition, $3.1 billion of new financing was obtained through the securitization and sale of government guaranteed residential mortgages. We hold retained interests in our residential mortgage and credit card securitization programs. Our total outstanding mortgage-backed securities (MBS) sold at October 31, 2004, was $6.0 billion. As of October 31, 2004, $1.9 billion of our credit card receivables were financed through notes issued by a securitization special purpose entity (see Note 7 on pages 89A and 90A, and off-balance sheet arrangements on page 68A).

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 25 below provides a summary of our future contractual funding commitments.

Table 25 Contractual obligations

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Unsecured long-term funding	$ 1,787	$ 6,225	$ 6,076	$ 1,132	$15,220
Subordinated debentures	–	–	152	7,964	8,116
Obligations under capital leases	376	643	491	829	2,339
Obligations under operating leases	29	43	7	–	79

	$ 2,192	$ 6,911	$ 6,726	$ 9,925	$25,754

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 57A to 61A.

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. Each of these types of arrangements, including its 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, credit 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 58A and 59A).

All derivatives except those that qualify for hedge accounting are recorded at fair value on our balance sheet (valuation methodologies are discussed on page 27A). 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 $2,524 billion at October 31, 2004, compared to $2,139 billion at October 31, 2003. The fair value of our trading and non-trading derivative assets totalled $38.4 billion and $2.0 billion compared to $35.2 billion and $1.6 billion, respectively, at October 31, 2003, while the fair value of our trading and non-trading derivative liabilities totalled $41.9 billion and $1.5 billion compared to $37.6 billion and $1.1 billion, respectively, at October 31, 2003. Changes in the fair value of our non-trading derivatives that do not qualify for hedge accounting and trading derivatives are recorded in non-interest income. Notes 1 and 21 on pages 79A to 84A, and 104A to 106A, 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 may also be used in connection with structured finance activities. 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 from what is conventionally available. We also use SPEs to make loan substitute investments and as a mechanism to indirectly invest in financial assets and financing businesses.

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 the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG 15). AcG 15 is applicable beginning November 1, 2004. As at October 31, 2004, we did not consolidate these SPEs unless we had control over them. Beginning November 1, 2004, we will not consolidate SPEs that are VIEs unless we are their Primary Beneficiary as defined in AcG 15. AcG 15 considers an enterprise to be the Primary Beneficiary of a VIE if it is exposed to a majority of the VIE's expected losses or expected residual returns or both. Expected losses and expected residual returns are specifically defined in AcG 15. Refer to Note 1 on page 83A for the impact of adopting 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 involvement with SPEs through our Structured Transactions Oversight Committee and our SPE Risk Committee. The Structured Transactions Oversight Committee comprises senior executive representatives from risk management, finance, corporate treasury, law and the capital markets business. It is responsible for the review of structured transactions and complex credits with potentially significant reputational, legal, regulatory, accounting or tax risks, including transactions involving SPEs. The SPE Risk Committee, comprising representatives from functional areas including risk management, corporate treasury, finance, subsidiary governance, law and taxation, is responsible for formulating policies governing SPEs and for monitoring their ongoing activities.

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 investment 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, 2004, total credit card receivables securitized and held off-balance sheet amounted to $1.9 billion, compared to $2.7 billion at October 31, 2003. The carrying value of our retained interests in securitized credit card receivables at October 31, 2004, was $13 million compared to $16 million in 2003, and amounts receivable under subordinated loan agreements were $5 million compared to $9 million in 2003.

Residential mortgage loans

We routinely securitize residential mortgage loans through the creation of mortgage-backed securities (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. We do not consolidate this SPE.

At October 31, 2004, total residential mortgage loans securitized and held off-balance sheet amounted to $6.0 billion, compared to $2.9 billion at October 31, 2003. The carrying value of our retained interests in securitized residential mortgage loans at October 31, 2004, was $127 million compared to $95 million in 2003.

Commercial mortgage loans

We securitize commercial mortgages by selling them, in collateral pools that meet certain diversification and return criteria, to an SPE. The SPE finances the purchase of these pools by way of issuing notes that carry varying degrees of subordination and which, when rated, range from AAA to B-, and unrated, with the unrated tranches carrying deeper levels of subordination. The notes represent undivided interests in the collateral pool, and the SPE, having sold all undivided interests available in the pool, retains none of the risk of the collateral pools. The sale of our commercial mortgages to the SPE constitutes a true accounting sale and since we neither control the SPE nor carry any residual risk/returns in the mortgages, we do not consolidate the SPE. As part of the sales contract to the SPE, we continue to be the primary servicer of the loans, under contract with a master servicer for the SPE.

There are a variety of purposes for this securitization, which include increasing the velocity with which our capital is employed, optimizing the use of the resources we apply to real estate lending and diversification of funding. As at October 31, 2004, $242 million of our originated commercial mortgages had been securitized through Real Estate Asset Liquidity Trust, an SPE sponsored by us, while $244 million of commercial mortgages had been sold to a third-party sponsored SPE during the year. This compares with $131 million sold to the third-party SPE during 2003.

Further details about the securitization of our financial assets during the year are shown in Note 7 on pages 89A to 90A.

Capital trusts

We sponsor two SPEs, RBC Capital Trust and RBC Capital Trust II, to raise capital (TruCS) that qualifies as Tier 1 regulatory capital. For further details on this capital trust activity and the terms of the TruCS issued and outstanding, refer to Note 13 on page 93A. The status of such instruments as Tier 1 regulatory capital is conditional upon their accounting treatment. We consolidated these SPEs as at October 31, 2004, under current Canadian GAAP. Certain changes to Canadian GAAP effective November 1, 2004, as described in Note 1 on pages 83A and 84A will result in classification of asset-backed TruCS issued by RBC Capital Trust as a liability and result in deconsolidation of loan-backed TruCS issued by RBC Capital Trust II. OSFI has grandfathered Tier 1 treatment for our existing TruCS. However, for future capital needs we continue to assess alternate structures to achieve consolidation and classification as equity, as preconditions to obtain Tier 1 treatment.

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 conduits) totalling $25.6 billion as at October 31, 2004, and $26.8 billion as at October 31, 2003. We currently administer five multi-seller conduits – three in Canada and two in the United States. These five multi-seller conduits have purchased financial assets from our clients totalling $18.5 billion. The five multi-seller conduits that we administer are not consolidated on our balance sheet as at October 31, 2004. Under AcG 15, which comes into effect next year, these SPEs will be VIEs. Pursuant to a restructuring of these SPEs during 2004, we anticipate that we will not be the Primary Beneficiary of any of them. The two multi-seller conduits in the U.S. were restructured in January 2004 while the three in Canada were restructured in October 2004. While the form of the U.S. and Canadian restructurings differed due in part to structural differences, the economic substance of these restructurings was similar. As part of the restructurings, an unrelated third party (the "expected loss investor") agreed to absorb credit losses (up to a maximum contractual amount) that may occur in the future on the assets in the multi-seller conduits (the "multi-seller conduit first-loss position") before us and the multi-seller conduit's debt holders. In return for assuming this multi-seller conduit first-loss position, the expected loss investor is paid by the multi-seller conduit a return commensurate with its risk position. Moreover, each multi-seller conduit has granted to the expected loss investor material voting rights including the right to approve any transaction prior to the multi-seller conduit purchasing and financing a transaction. We calculated our total expected losses and expected residual returns as defined in AcG 15 from our variable interests with each multi-seller conduit. We performed a similar calculation for the expected loss investor. We have concluded that for each of the five multi-seller conduits, the expected loss investor absorbs a majority of each multi-seller conduit's expected losses and expected residual returns when compared to us and therefore we will not be the Primary Beneficiary of any of them.

We are involved in the multi-seller conduit 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 conduits to diversify their financing sources and to reduce funding costs by leveraging the value of high-quality collateral.

The multi-seller conduits purchase various financial assets from clients and finance the purchases by issuing highly rated asset-backed commercial paper. The multi-seller conduits 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 conduits. We provide or retain certain services such as transaction structuring and administration as specified by the multi-seller conduit 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 conduits. We have no rights to, or control of, the assets owned by the multi-seller conduits.

Fee revenue for such services, which is reported as non-interest income, amounted to $44 million during the year compared to $34 million during 2003.

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

Asset class (C$ millions)	**2004**	**2003**
Credit cards	**$ 4,695**	$ 6,248
Equipment receivables	**3,530**	2,566
Trade receivables	**3,193**	3,680
Auto loans and leases	**2,486**	3,681
Asset-backed securities	**1,799**	952
Consumer loans	**868**	1,004
Residential mortgages	**660**	1,138
Other loans	**584**	1,159
Dealer floor plan receivables	**–**	1,269
Other	**714**	754
	$18,529	$22,451

The commercial paper issued by each multi-seller conduit is in the multi-seller conduit's own name with recourse to the financial assets owned by the multi-seller conduit. The multi-seller conduit 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 conduits that we administer. Each multi-seller conduit is largely prohibited from issuing medium-term notes or other forms of indebtedness to finance the asset purchases. Consequently, each multi-seller conduit's commercial paper liabilities are generally equal to the assets owned by that multi-seller conduit. The small difference between each of the multi-seller conduit's asset and liability balances is mostly related to the discount or interest costs attributable to the commercial paper. As of October 31, 2004, the total face amount of commercial paper issued by the multi-seller conduits equaled $18.58 billion, generating $18.53 billion 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 also included in our discussion on Guarantees below, are shown in the following table:

Liquidity and credit facilities

	2004		2003	
(C$ millions)	**Committed (1)**	**Outstanding**	**Committed (1)**	**Outstanding**
Liquidity facilities	**$ 25,443**	**$ –**	$ 25,727	$ –
Credit facilities	**3,935**	**–**	6,791	–

(1) Our maximum exposure to loss under these facilities is $25.4 billion for 2004 and $25.7 billion for 2003.

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 59A. The liquidity risk to us is deemed to be low based on the historical performance and high credit quality of the multi-seller conduits' 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 transfer our assets to the SPEs with an obligation to buy these assets back in future and may enter into derivative contracts with these SPEs in order to convert various risk factors such as yield, currency or credit risk of underlying assets to meet the needs of 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; rather we buy credit protection from these SPEs through credit derivatives. The investors in the notes ultimately bear any payments made by the SPE under these credit derivatives. 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. We do not consolidate these SPEs. 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, the derivatives with these SPEs are carried at fair value in derivative-related assets and liabilities. The assets in these SPEs amounted to $2.4 billion as at October 31, 2004 (2003 – $1.5 billion).

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 2004 was US$1.3 billion (2003 – US$.8 billion). Although we have nominal investments in the first-loss tranche of each of three CDOs with assets totalling US$1.1 billion (2003 – one CDO with assets totalling US$300 million), 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. We do not consolidate these CDOs.

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 structuring and collateral management services and, where indicated, interest income from investments in individual CDOs. These revenues totalled $10 million during 2004 (2003 – $3 million).

Structured finance

We occasionally make loan substitute and equity investments in off-balance sheet entities that are part of transactions structured to achieve a desired outcome such as limiting exposure to specific assets or risks, achieving indirect (and usually risk mitigated) exposure to financial assets, supporting an enhanced yield and meeting client requirements. These transactions usually yield a higher return, either before- or after-tax, than financing non-SPE counterparties, or holding an interest in financial assets directly. These transactions are structured to mitigate risks associated with directly investing in the underlying financial assets and may be structured so that our ultimate credit risk is that of the non-SPE, which in most cases is another financial institution. Exit mechanisms are built into these transactions to curtail exposure from changes in law or regulations. These entities had total assets of $8.2 billion as at October 31, 2004. Our total exposure to these entities is $3.3 billion, which is reflected on our balance sheet. Sometimes our control over such an entity results in consolidation.

For other types of off-balance sheet arrangements we enter into through VIEs, please refer to Note 1 on page 83A. As mentioned in Note 1, we continue to monitor developments that affect our current interpretation of AcG 15. These developments may change our anticipated conclusion whether to consolidate these entities or not. These changes may impact future usage of these arrangements.

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, credit derivatives, written put options, financial

standby letters of credit, credit enhancements, stable value products, performance guarantees and certain indemnification agreements.

Our maximum potential amount of future payments in relation to these items at October 31, 2004, amounted to $83 billion (2003 – $61 billion). 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.

Note 20 on pages 102A and 103A 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 on us up to a stipulated amount and typically having underlying shipments of goods as collateral. We make commitments to extend credit, which represent unused portions of authorizations to extend credit in the form of loans, acceptances and letters of credit. We also have uncommitted amounts, where we retain the option to extend credit to a borrower. Table 26 below provides a summary of our off-balance sheet commercial commitments.

Table 26 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	$ 500	$ 65	$ 2	$ 25	$ 592
Commitments to extend credit	45,682	15,778	9,319	3,815	74,594
Uncommitted amounts	60,972	–	–	–	60,972
	$ 107,154	$ 15,843	$ 9,321	$ 3,840	$136,158

(1) Based on remaining term to maturity.

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 57A.

By their very nature, 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 beliefs, plans, objectives, expectations, anticipations, 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 general economic conditions in each of the countries in which we conduct business.

Factors such as interest rates, foreign exchange rates, consumer spending, business investment, government spending, the health of the capital markets, inflation and terrorism impact the business and economic environments in which we operate and, ultimately, the amount of business we conduct in a specific geographic region. For example, in an economic downturn in a particular country that is 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 a particular equity market could cause a reduction in new issue and investor trading activity, assets under management and assets under administration, resulting in lower fee, commission and other revenues.

The movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar, may affect our revenues, expenses and earnings.

Our revenues, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations in the movement of the Canadian dollar relative to such currencies. Such fluctuations may affect our overall business and financial results. Our most significant exposure is to the U.S. dollar on account of our level of operations in the U.S., and the increase of the Canadian dollar compared to the U.S. dollar has had a material effect on our results in the past two years. Further appreciation of the Canadian dollar relative to the U.S. dollar would reduce the translated value of U.S. dollar-denominated revenues, expenses and earnings compared to prior periods.

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, fluctuation of which can have an impact on our 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 65A. 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 60A.

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

The competition for customers 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 our products or services, our reputation and actions taken by our competitors. Non-financial companies can provide consumers with the option to pay bills and transfer funds without involving banks. Securities transactions

can be conducted through the Internet and other alternative, non-trading systems. Such disintermediation could also reduce fee revenues and adversely affect our earnings.

Changes in the statutes, regulations and regulatory policies that govern activities in our various business lines could affect 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, implementation or enforcement of statutes, regulations or regulatory policies, could adversely affect us by increasing the ability of competitors to compete with the products and services we provide and increasing our costs of compliance. 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.

Judicial or regulatory judgments and legal proceedings against us may adversely affect our results.

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 damage our reputation and have a negative impact on our earnings.

We are also subject to litigation arising in the ordinary course of our business. The adverse resolution of any litigation could have a material adverse effect on our results or could give rise to significant reputational damage, which could impact our future business prospects.

Failure to obtain accurate and complete information from or on behalf of our customers and counterparties could adversely affect 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 results could be adversely impacted if the financial statements and other financial information relating to customers and counterparties on which we rely do not comply with GAAP or are materially misleading.

Company specific factors

Our financial performance may be affected by our ability to successfully complete our business realignment.

Effective November 1, 2004, we realigned our organizational structure, resources and processes in order to serve our clients better and more efficiently across all our businesses, to find new ways to generate stronger revenue growth, and to streamline our organization and processes for faster decision-making, quicker implementation and better productivity. Although we believe that our initiatives will help us to better meet our clients'needs, accelerate revenue growth and control costs, there is no assurance that we will achieve these objectives and improve our financial performance.

Our financial performance will be influenced by our ability to complete strategic acquisitions and to integrate acquisitions successfully, including our ability to successfully execute our U.S. expansion strategy.

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 complete acquisitions on terms and conditions that satisfy our investment criteria. There is also no assurance we will achieve anticipated cost savings following acquisitions. 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 first phase of our U.S. expansion strategy consisted of putting together the original building blocks by acquiring businesses largely in the personal and commercial banking, wealth management and insurance areas. The second phase entailed adding to these original building blocks through additional strategic acquisitions, branch openings and greater market penetration. The third phase entails reducing costs and enhancing profitability by focusing on high-growth markets through initiatives such as strategic branch openings and closing low performing branches. There are significant risks and uncertainties associated with our U.S. expansion including the risk of failure to realize anticipated savings, retain key employees, integrate new customers with our business and our ability to realize profitability improvement.

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. Such estimates and assumptions may require revision, and changes to them may materially adversely affect our results of operations and financial condition.

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 in Note 1 on pages 79A to 84A.

As detailed in Critical accounting policies and estimates section on pages 26A to 28A, four accounting policies have been identified as being "critical" to the presentation of our financial condition and results of operations as they (i) require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and (ii) carry the likelihood that materially different amounts could be reported under different conditions or using different assumptions and estimates. The reporting of such materially different amounts could materially and adversely affect our results of operations or reported financial condition. These critical accounting policies and estimates relate to

the determination of our allowances for credit losses, the determination of the fair value of certain of our financial instruments, securitization and pensions.

As a large corporation, we are exposed to operational and infrastructure risks.

Similar to all large corporations, we are exposed to many types of operational risk, including the risk of fraud by employees or outsiders, unauthorized transactions by employees, or operational errors, including clerical or record keeping errors or errors resulting from faulty or disabled computer or telecommunications systems. Given the high volume of transactions we process on a daily basis, certain errors may be repeated or compounded before they are discovered and successfully rectified. Shortcomings or failures in our internal processes, people or systems, including any of our financial, accounting or other data processing systems, could lead to, among other consequences, financial loss and reputational damage. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business.

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 the possible impact on our business of international conflicts and other developments including those relating to the war on terrorism, 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 our forward-looking statements to make decisions with respect to us, 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.

2003 COMPARED TO 2002

The following discussion and analysis provides a comparison of our results of operations for the years ended October 31, 2003, and October 31, 2002. This discussion should be read in conjunction with the consolidated financial statements and related Notes on pages 74A to 114A. Reference is also made to our 2003 report to shareholders for a much more detailed discussion.

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, predominantly reflecting a reduction in the provision for credit losses of $344 million.

Business segment results

Net income from RBC Banking increased $30 million or 2% to $1,561 million in 2003 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 2003. ROE increased from 19.1% to 21.0% due to lower common equity attributed to this segment and higher earnings.

Net income from RBC Investments was up $67 million or 20% to $410 million 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 in 2003 was up $89 million, with significantly improved performance in the full-service brokerage business, strong fixed income results and a decline in retention compensation costs. 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.

Net income from RBC Insurance increased $99 million or 85% to $216 million in 2003 due to 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. U.S. net income in 2003 was $4 million compared to a loss of $19 million a year ago, largely due to the improvement in the life business noted above. ROE increased from 15.7% to 25.0% due to higher earnings.

Net income from RBC Capital Markets increased $91 million or 22% to $508 million 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. 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.

Net income from RBC Global Services was up $6 million or 4% to $177 million in 2003, as higher revenues, a lower provision for credit losses and lower income taxes offset higher non-interest expense. ROE fell 90 basis points in 2003 to 27.5%, primarily reflecting $50 million in additional average common equity attributed to this segment in 2003.

The Other segment's net income declined $50 million to $133 million in 2003 due largely to refinements in the methodology for attributing net interest income to our business segments. ROE fell to 5.6% from 24.8%.

Net interest income

Net interest income decreased 5% to $6.6 billion in 2003 from $6.9 billion in 2002, reflecting a decline in the net interest margin due to price competition in retail banking and low interest rates, and a lower translated value of U.S. dollar-denominated net interest income due to the strengthening of the Canadian dollar relative to the U.S. dollar.

Non-interest income

Non-interest income increased $502 million or 5% to $10.8 billion in 2003 primarily due to increased trading revenues, higher insurance premiums and gain on sale of available for sale securities, which more than offset a $390 million decline in the translated value of U.S. dollar-denominated revenues due to the strengthening of the Canadian dollar relative to the U.S. dollar in 2003. Non-interest income accounted for 62% of total revenues.

Non-interest expense

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.

Provision for credit losses

The provision for credit losses decreased $344 million or 32% to $721 million in 2003 from $1,065 million in 2002 largely due to improvements in the U.S. business and government loan portfolio. The total allowance for credit losses was $2.2 billion, or 1.0% of total loans and acceptances, and reverse repurchase agreements, down from $2.3 billion or 1.0% in 2002.

Taxes

Income taxes were $1.5 billion in 2003, up from 2002, while the effective income tax rate was 31.8% compared to 32.2% in 2002.

QUARTERLY FINANCIAL INFORMATION

Selected financial information for the eight most recently completed quarters is shown on page 120A.

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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 is designed to ensure that we and our employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of our 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 our existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. Our 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 and Chief Executive Officer

Janice R. Fukakusa
Chief Financial Officer

Toronto, December 20, 2004

AUDITORS' REPORT TO SHAREHOLDERS

To the Shareholders of Royal Bank of Canada

We have audited the consolidated balance sheets of Royal Bank of Canada as at October 31, 2004 and 2003, 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, 2004. 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, 2004 and 2003, and the results of its operations and its cash flows for each of the years in the two-year period ended October 31, 2004, in accordance with Canadian generally accepted accounting principles.

We also reported separately on December 20, 2004, 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, 2004 and 2003, consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America.

The consolidated financial statements for the year ended October 31, 2002, prior to the assessment of the impact of subsequent significant accounting changes including changes in financial statement presentation as disclosed in Note 1, the presentation of segment information in Note 3, and other reclassifications to the 2002 consolidated financial statements, 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 consolidated financial statements in their report dated November 19, 2002. We have audited the changes described in Notes 1, 3 and other reclassifications to the 2002 consolidated financial statements, that were applied to the 2002 financial statements and in our opinion, such changes, in all material respects, are appropriate and have been properly applied.

Deloitte & Touche LLP
Chartered Accountants
Toronto, December 20, 2004

CONSOLIDATED BALANCE SHEET

As at October 31 (C$ millions)	2004	2003
Assets		
Cash and due from banks	**$ 4,758**	$ 2,887
Interest-bearing deposits with banks	**5,220**	3,126
Securities		
Trading account (pledged – $14,850 and $11,791)	**89,322**	87,532
Investment account	**38,923**	41,074
Loan substitute	**701**	325
	128,946	128,931
Assets purchased under reverse repurchase agreements	**34,862**	36,289
Loans		
Residential mortgage	**84,170**	78,817
Personal	**36,848**	32,186
Credit card	**6,456**	4,816
Business and government	**60,713**	56,630
	188,187	172,449
Allowance for loan losses	**(1,644)**	(2,055)
	186,543	170,394
Other		
Customers' liability under acceptances	**6,184**	5,943
Derivative-related amounts	**38,891**	35,612
Premises and equipment	**1,756**	1,670
Goodwill	**4,369**	4,587
Other intangibles	**523**	580
Other assets	**17,144**	13,014
	68,867	61,406
	$429,196	$403,033
Liabilities and shareholders' equity		
Deposits		
Personal	**$113,009**	$106,709
Business and government	**132,070**	129,860
Bank	**25,880**	22,576
	270,959	259,145
Other		
Acceptances	**6,184**	5,943
Obligations related to securities sold short	**25,005**	22,855
Obligations related to assets sold under repurchase agreements	**21,705**	23,735
Derivative-related amounts	**42,201**	37,775
Insurance claims and policy benefit liabilities	**6,838**	5,256
Other liabilities	**27,575**	21,318
	129,508	116,882
Subordinated debentures	**8,116**	6,243
Non-controlling interest in subsidiaries	**2,409**	2,388
Shareholders' equity		
Preferred shares	**832**	832
Common shares (shares issued and outstanding – 644,747,812 and 656,021,122)	**6,988**	7,018
Additional paid-in capital	**169**	85
Retained earnings	**12,065**	11,333
Treasury stock (shares held–4,862,782 and nil)	**(294)**	–
Foreign currency translation adjustments	**(1,556)**	(893)
	18,204	18,375
	$429,196	$403,033

Gordon M. Nixon
President and Chief Executive Officer

Robert B. Peterson
Director

CONSOLIDATED STATEMENT OF INCOME

For the year ended October 31 (C$ millions)	2004	2003	2002
Interest income			
Loans	**$ 9,660**	$ 10,063	$ 10,426
Securities	**3,457**	3,025	3,175
Assets purchased under reverse repurchase agreements	**531**	806	688
Deposits with banks	**128**	113	160
	13,776	14,007	14,449
Interest expense			
Deposits	**5,142**	5,452	5,709
Other liabilities	**1,512**	1,583	1,399
Subordinated debentures	**429**	376	406
	7,083	7,411	7,514
Net interest income	**6,693**	6,596	6,935
Non-interest income			
Insurance premiums, investment and fee income	**2,870**	2,356	2,043
Trading revenues	**1,526**	1,922	1,690
Investment management and custodial fees	**1,198**	1,143	1,177
Securities brokerage commissions	**1,166**	1,031	1,187
Deposit and payment service charges	**1,050**	1,078	1,041
Underwriting and other advisory fees	**909**	813	755
Mutual fund revenues	**850**	673	723
Card service revenues	**555**	518	496
Foreign exchange revenues, other than trading	**331**	279	276
Credit fees	**224**	227	223
Securitization revenues	**200**	165	174
Mortgage banking revenues	**59**	198	222
Gain (loss) on sale of investment account securities	**23**	31	(111)
Other	**467**	388	424
	11,428	10,822	10,320
Total revenues	**18,121**	17,418	17,255
Provision for credit losses	**346**	721	1,065
Insurance policyholder benefits, claims and acquisition expense	**2,124**	1,696	1,535
Non-interest expense			
Human resources	**6,854**	6,448	6,315
Occupancy	**784**	739	759
Equipment	**934**	901	893
Communications	**701**	732	768
Professional fees	**493**	460	416
Outsourced item processing	**294**	292	306
Amortization of other intangibles	**69**	71	72
Other	**980**	766	891
	11,109	10,409	10,420
Business realignment charges	**192**	–	–
Goodwill impairment	**130**	–	–
Net income before income taxes	**4,220**	4,592	4,235
Income taxes	**1,232**	1,460	1,365
Net income before non-controlling interest	**2,988**	3,132	2,870
Non-controlling interest in net income of subsidiaries	**171**	127	108
Net income	**$ 2,817**	$ 3,005	$ 2,762
Preferred share dividends	**45**	68	98
Net income available to common shareholders	**$ 2,772**	$ 2,937	$ 2,664
Average number of common shares (in thousands)	**646,732**	662,080	672,571
Earnings per share (in dollars)	**$ 4.29**	$ 4.44	$ 3.96
Average number of diluted common shares (in thousands)	**655,508**	669,016	678,120
Diluted earnings per share (in dollars)	**$ 4.23**	$ 4.39	$ 3.93
Dividends per share (in dollars)	**$ 2.02**	$ 1.72	$ 1.52

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31 (C$ millions)	2004	2003	2002
Preferred shares			
Balance at beginning of year	**$ 832**	$ 1,545	$ 2,024
Redeemed for cancellation	**–**	(645)	(468)
Translation adjustment on shares denominated in foreign currency	**–**	(68)	(11)
Balance at end of year	**832**	832	1,545
Common shares			
Balance at beginning of year	**7,018**	6,979	6,940
Issued	**127**	193	191
Purchased for cancellation	**(157)**	(154)	(152)
Balance at end of year	**6,988**	7,018	6,979
Additional paid-in capital			
Balance at beginning of year	**85**	78	33
Renounced stock appreciation rights, net of related income taxes	**–**	–	31
Stock-based compensation awards	**56**	7	14
Reclassified amounts	**34**	–	–
Other	**(6)**	–	–
Balance at end of year	**169**	85	78
Retained earnings			
Balance at beginning of year	**11,333**	10,235	9,206
Net income	**2,817**	3,005	2,762
Preferred share dividends	**(45)**	(68)	(98)
Common share dividends	**(1,303)**	(1,137)	(1,022)
Premium paid on common shares purchased for cancellation	**(735)**	(698)	(612)
Issuance costs, net of related income taxes	**–**	(4)	(1)
Cumulative effect of adopting AcG 17, *Equity-Linked Deposit Contracts*, net of related income taxes	**(2)**	–	–
Balance at end of year	**12,065**	11,333	10,235
Treasury stock			
Reclassified amounts	**(304)**	–	–
Net sales	**10**	–	–
Balance at end of year	**(294)**	–	–
Foreign currency translation adjustments, net of related income taxes			
Balance at beginning of year	**(893)**	(54)	(38)
Change in unrealized foreign currency translation gains and losses	**(1,341)**	(2,988)	(59)
Impact of hedging unrealized foreign currency translation gains and losses	**678**	2,149	43
Balance at end of year	**(1,556)**	(893)	(54)
Shareholders' equity at end of year	**$18,204**	$18,375	$18,783

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended October 31 (C$ millions)	2004	2003	2002
Cash flows from operating activities			
Net income	**$ 2,817**	$ 3,005	$ 2,762
Adjustments to determine net cash provided by (used in) operating activities			
Provision for credit losses	**346**	721	1,065
Depreciation	**396**	398	407
Business realignment charges	**192**	–	–
Deferred income taxes	**(69)**	275	98
Impairment of goodwill and amortization of other intangibles	**199**	71	72
Writedown of deferred issuance costs	**25**	–	–
Gain on sale of premises and equipment	**(52)**	(15)	(35)
Gain on loan securitizations	**(34)**	(34)	(54)
Loss on investment in certain associated companies	**9**	34	–
(Gain) loss on sale of investment account securities	**(23)**	(31)	111
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	**(13)**	46	236
Net change in accrued interest receivable and payable	**(119)**	100	(263)
Current income taxes	**(895)**	672	419
Derivative-related assets	**(3,279)**	(5,354)	(3,018)
Derivative-related liabilities	**4,426**	5,638	3,491
Trading account securities	**(1,965)**	(11,930)	(10,109)
Net change in brokers and dealers receivable and payable	**(1,883)**	272	704
Other	**671**	(3,410)	(1,463)
Net cash provided by (used in) operating activities	**749**	(9,542)	(5,577)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	**(3,273)**	999	327
Change in loans, net of loan securitizations	**(20,914)**	(6,479)	(4,618)
Proceeds from loan securitizations	**3,532**	1,742	1,691
Proceeds from sale of investment account securities	**18,430**	19,340	16,393
Proceeds from maturity of investment account securities	**38,088**	26,983	12,317
Purchases of investment account securities	**(50,911)**	(49,750)	(33,093)
Change in loan substitute securities	**(376)**	69	44
Net acquisitions of premises and equipment	**(444)**	(420)	(419)
Change in assets purchased under reverse repurchase agreements	**1,427**	796	1,570
Net cash provided by (used in) acquisition of subsidiaries	**438**	(281)	(99)
Net cash used in investing activities	**(14,003)**	(7,001)	(5,887)
Cash flows from financing activities			
Issue of RBC Trust II Capital Securities (RBC TruCS)	**–**	900	–
Change in deposits	**11,814**	14,790	8,085
Issue of subordinated debentures	**3,100**	–	635
Repayment of subordinated debentures	**(990)**	(100)	(505)
Redemption of preferred shares for cancellation	**–**	(653)	(465)
Issuance costs	**–**	(4)	(1)
Issue of common shares	**119**	183	168
Purchase of common shares for cancellation	**(892)**	(852)	(764)
Net sales of treasury stock	**10**	–	–
Dividends paid	**(1,309)**	(1,181)	(1,104)
Dividends/distributions paid by subsidiaries to non-controlling interest	**(164)**	(107)	(107)
Change in obligations related to assets sold under repurchase agreements	**(2,030)**	2,626	245
Change in obligations related to securities sold short	**2,150**	3,745	2,667
Change in short-term borrowings of subsidiaries	**3,334**	(2,374)	3,362
Net cash provided by financing activities	**15,142**	16,973	12,216
Effect of exchange rate changes on cash and due from banks	**(17)**	(77)	(10)
Net change in cash and due from banks	**1,871**	353	742
Cash and due from banks at beginning of year	**2,887**	2,534	1,792
Cash and due from banks at end of year	**$ 4,758**	$ 2,887	$ 2,534
Supplemental disclosure of cash flow information			
Amount of interest paid in year	**$ 7,004**	$ 7,170	$ 8,229
Amount of income taxes paid in year	**$ 2,522**	$ 1,723	$ 738

Consolidated financial statements (all tabular amounts are in millions of Canadian dollars, except per share amounts)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The accompanying 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 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.

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 companies 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 is 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 is 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 companies with a functional currency other than the Canadian dollar are included in Shareholders'equity 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 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 plus accrued interest. 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 Provision for credit 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 statement of income. 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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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. 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. Derivatives, where hedge accounting has not been applied, including certain warrants, loan commitments and derivatives embedded in equity-linked deposit contracts 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. A portion of the market value is deferred within Derivative-related amounts in liabilities to adjust for credit risk related to these contracts. The fair values of derivatives 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 certain 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 Foreign currency translation adjustments.

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 Net interest 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. 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.

Other intangibles with a finite life are amortized over their estimated useful lives, generally not exceeding 20 years, 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. Changes in deferred income taxes related to a change in tax rates are recognized in the period the tax rate change is substantively enacted.

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, which is included in Non-interest expenses – Human resources, 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 unrecognized prior service costs, unrecognized net actuarial gains or losses and unrecognized transition asset or obligation. 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. Other postretirement benefits are reported in Other liabilities.

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

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 as described in 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.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Earnings per share

Earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period, excluding Treasury stock. Net income available to common shareholders is determined after considering dividend entitlements of preferred shareholders. Diluted earnings per share reflects the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in future, to the extent such entitlement is not subject to unresolved contingencies.

Significant accounting changes

Change in financial statement presentation

During the year, we reviewed the presentation of certain items on our Consolidated balance sheet and reclassified $3.2 billion (2003 – $5.7 billion) of certificates of deposit from Interest-bearing deposits with banks to Trading account securities, and $6.8 billion (2003 – $5.8 billion) to Investment account securities in order to more appropriately reflect the nature of these instruments.

Generally accepted accounting principles

In July 2003, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 1100, *Generally Accepted Accounting Principles* (CICA 1100). This section establishes standards for financial reporting in accordance with GAAP, and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The provisions of CICA 1100 are applied on a prospective basis to balances outstanding as at November 1, 2003, and transactions after that date. In light of CICA 1100 provisions, we have reviewed our application of certain accounting policies as described below.

Items in transit

During the year, we reviewed the presentation of certain items in transit accounts and reclassified, commencing November 1, 2003, balances owing to other banks that arise from the clearing settlement system. These amounts were previously recorded in Cash and due from banks and have been reclassified to Deposits – bank, Other liabilities and Other assets in order to more appropriately reflect the nature of these balances. Balances due from other banks that arise from the clearing settlement system will continue to be classified in Cash and due from banks. At October 31, 2004, $180 million, $1.7 billion and $1.1 billion in Cash and due from banks were reclassified to Deposits – bank, Other liabilities and Other assets, respectively.

Treasury stock

Commencing November 1, 2003, we recorded as a deduction from total shareholders' equity our own shares acquired and held by subsidiaries for reasons other than cancellation. These shares are now presented as Treasury stock but were previously classified as Trading account securities and Other assets. The balance outstanding at the beginning of the year was reclassified from assets to Treasury stock. Treasury stock is recorded at historical cost and is reduced for any resales or transfers to employees under certain stock-based compensation arrangements. Any gains or losses on resales or transfers of Treasury stock are recognized in Additional paid-in capital or against Retained earnings, respectively.

Foreign currency denominated shares

Prior to November 1, 2003, our foreign currency-denominated preferred shares were translated at the rate prevailing at each balance sheet date. We are no longer changing the rate at which these shares are translated. The impact of this change was not significant to our consolidated financial statements.

Equity-linked deposit contracts

In November 2003, the CICA issued Accounting Guideline 17, *Equity-Linked Deposit Contracts*, which pertains to deposit obligations that require us to make variable payments based on the performance of certain equity indices, and allows for fair value recognition of the variable payment obligations embedded in these contracts with changes in fair value recognized in income as they arise. We elected to apply the guideline on a prospective basis to our equity-linked guaranteed investment certificates and equity-linked notes, which did not result in a significant impact on our financial position or results of operations for the year ended October 31, 2004.

Classification of economic hedges

We have updated our disclosure for economic hedges that do not qualify for hedge accounting to reclassify the realized gains and losses on these hedges from Interest income – loans, to Non-interest income – other. As a result, the income, expenses and fair value changes related to these derivatives are now all recorded in one line in our Consolidated statements of income for current and prior periods.

Employee future benefits

In January 2004, the CICA amended Handbook Section 3461, *Employee Future Benefits* (CICA 3461R), to require additional disclosures about the assets, cash flows and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. The new annual disclosures are effective for years ending on or after June 30, 2004, and new interim disclosures are effective for periods ending on or after that date. During the year, we adopted CICA 3461R and the additional disclosures of our pension plans and other postretirement benefit plans are presented in Note 17.

Future accounting changes

Consolidation of Variable Interest Entities

CICA Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG 15) is effective November 1, 2004. It has been revised to harmonize with the new Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46R). AcG 15 defines a variable interest entity (VIE) as an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the Primary Beneficiary to consolidate a VIE and defines the Primary Beneficiary as the entity that is exposed to a majority of the VIE's expected losses (as defined in AcG 15) or entitled to a majority of the VIE's expected residual returns (as defined in AcG 15) or both. In addition, AcG 15 prescribes certain disclosures for VIEs that are not consolidated but in which we have a significant variable interest.

The following table provides information about VIEs of which we will be the Primary Beneficiary under AcG 15, or in which we would be considered to have a significant variable interest:

	Total assets as at October 31, 2004	Maximum exposure to loss as at October 31, 2004
VIEs in which we have a significant variable interest (1):		
Multi-seller conduits we administer (2)	**$ 25,608**	**$ 25,443**
Third-party conduits	**3,994**	**1,133**
Structured finance VIEs	**2,079**	**1,436**
Investment funds	**2,192**	**508**
CDOs	**999**	**12**
Other	**510**	**77**
VIEs of which we would be the Primary Beneficiary (3):		
Structured finance VIEs	**$ 1,406**	
Investment funds	**713**	
Repackaging VIEs	**673**	
Compensation vehicles	**206**	
Other	**299**	

(1) The maximum exposure to loss resulting from our significant variable interest in these VIEs consists mostly of investments, loans, liquidity facilities and fair value of derivatives with them. We have recognized $2,033 million of this exposure on our Consolidated balance sheet.

(2) Total assets represents maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2004. Actual assets held by these conduits as at October 31, 2004, were $18,529 million.

(3) We either fully or proportionately consolidated entities with assets of $2,498 million as at October 31, 2004. We will fully consolidate these under AcG 15. We will begin consolidating the remainder of these entities upon adoption of AcG 15.

Multi-seller conduits

We administer multi-seller asset-backed commercial paper conduit programs (multi-seller conduits), which purchase financial assets from our clients and finance those purchases by issuing asset-backed commercial paper. Clients utilize multi-sellers to diversify their financing sources and to reduce funding costs. These multi-seller conduits have been restructured during 2004. As part of the restructurings, an unrelated third party (the "expected loss investor") agreed to absorb credit losses (up to a maximum contractual amount) that may occur in the future on the assets in the multi-seller conduits (the "multi-seller conduit first-loss position") before us and the multi-seller conduit's debt holders. In return for assuming this multi-seller conduit first-loss position, each multi-seller conduit pays the expected loss investor a return commensurate with its risk position. The expected loss investor absorbs a majority of each multi-seller conduit's expected losses, when compared to us; therefore, we will not be the Primary Beneficiary and will not be required to consolidate these conduits under AcG 15. However, we continue to hold a significant variable interest in these multi-seller conduits resulting from our provision of backstop liquidity facilities and partial credit enhancement and our entitlement to residual fees. The liquidity and credit enhancement facilities are also included and described in our disclosure on guarantees in Note 20.

Collateralized Debt Obligations

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. As part of this role, we are required to invest in a portion of the CDO's first-loss tranche, which represents our exposure to loss. In most cases, our share of the first-loss tranche and the fees we earn as collateral manager do not expose us to a majority of the expected losses and we will therefore not be the Primary Beneficiary of these CDOs.

Repackaging VIEs

We use repackaging VIEs, which generally transform credit derivatives into cash instruments, to distribute credit risk and create unique credit products to meet investors' specific requirements. We 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 VIEs as collateral for notes issued, which do not meet sale recognition criteria under CICA Accounting Guideline 12, *Transfers of Receivables* (AcG 12). We sometimes invest in the notes issued by these VIEs, which will cause us to be the Primary Beneficiary requiring consolidation.

Structured finance VIEs

We finance VIEs that are part of transactions structured to achieve a desired outcome such as limiting exposure to specific assets, supporting an enhanced yield and meeting client requirements. Sometimes our interest in such a VIE exposes us to a majority of its expected losses, which will result in consolidation.

Investment funds

We facilitate development of investment products by third parties including mutual funds, unit investment trusts and other investment funds that are sold to retail investors. We enter into derivatives with these funds to provide the investors their desired exposure and hedge our exposure from these derivatives by investing in other funds. We will be the Primary Beneficiary where our participation in the derivative or our investment in other funds exposes us to a majority of their respective expected losses.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital trusts

We will deconsolidate RBC Capital Trust II, which was created in 2003 to issue Innovative Tier 1 capital of $900 million. We issued a senior deposit note of the same amount to this trust. Although we own the common equity and voting control of the trust, we will not be the Primary Beneficiary as we are not exposed to the majority of the expected losses. We will deconsolidate certain other capital trusts of approximately $150 million for similar reasons.

Securitization of our financial assets

We employ special purpose entities (SPEs) in the process of securitizing our assets, none of which will be consolidated under AcG 15. One entity is a qualifying SPE under AcG 12, which is specifically exempt from consolidation under AcG 15, and our level of participation in each of the remaining SPEs relative to others will not expose us to a majority of the expected losses. For details on our securitization activities please refer to Note 7.

Mutual funds and assets administered in trust

Under the previous version of AcG 15, we had originally concluded that we would be the Primary Beneficiary of entities that experience low volatility of returns on their assets. Since the revised AcG 15 has removed the provision in the previous version of AcG 15, which required a comparison of gross fees earned by us with the variability in returns to which investors or beneficiaries are exposed, we no longer consider ourselves the Primary Beneficiary of these entities nor do we consider our fee variability to be significant relative to the investors or beneficiaries.

We continue to monitor developments, including additional interpretive guidance issued by standard setters, which affect our interpretation of AcG 15.

Liabilities and equity

Pursuant to revisions of CICA Handbook Section 3860, *Financial Instruments: Disclosure and Presentation*, effective November 1, 2004, we will be required to present certain of our financial instruments that are to be settled by a variable number of our common shares upon conversion by the holder as liabilities. The revised standard will result in $1.4 billion of our Trust Capital Securities currently included in Non-controlling interest in subsidiaries and $300 million of our First Preferred Series N shares to be presented as financial liabilities on our Consolidated balance sheet. Accrued yield distributions and dividends on these instruments will also be reclassified to Interest expense in our Consolidated statement of income.

NOTE 2 SIGNIFICANT ACQUISITIONS

2004

During 2004, we completed the acquisitions of Provident Financial Group Inc. (Provident), William R. Hough & Co., Inc. (William R. Hough) and the Canadian operations of Provident Life and Accident Insurance Company (UnumProvident). The details of these acquisitions are as follows:

	Provident	William R. Hough	UnumProvident
Acquisition date	November 21, 2003	February 27, 2004	May 1, 2004
Business segment	RBC Banking	RBC Investments	RBC Insurance
Percentage of shares acquired	n.a.	100%	n.a.
Purchase consideration	Cash payment of US$81	Cash payment of US$112	n.a.(2)
Fair value of tangible assets acquired	$ 1,145	$ 54	$ 1,617
Fair value of liabilities assumed	(1,180)	(21)	(1,617)
Fair value of identifiable net tangible assets acquired	(35)	33	–
Core deposit intangibles (1)	13	–	–
Customer lists and relationships (1)	–	12	–
Goodwill	127	105	–
Total purchase consideration	$ 105	$ 150	$ –

(1) Core deposit intangibles and customer lists and relationships are amortized on a straight-line basis over an estimated average useful life of 8 and 15 years, respectively.

(2) RBC Insurance acquired the Canadian operations of UnumProvident. As part of the acquisition, RBC Insurance assumed UnumProvident's policy liabilities and received assets with the equivalent fair value to support future payments.

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.

NOTE 3 RESULTS BY BUSINESS AND GEOGRAPHIC SEGMENT

2004	RBC Banking	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,517	$ 429	$ —	$ 679	$ 177	$ (109)	$ 6,693	$ 5,183	$ 1,116	$ 394
Non-interest income	2,040	3,322	2,870	2,077	887	232	11,428	6,121	3,699	1,608
Total revenues	7,557	3,751	2,870	2,756	1,064	123	18,121	11,304	4,815	2,002
Provision for credit losses	474	4	—	(77)	(19)	(36)	346	343	61	(58)
Insurance policyholder benefits, claims and acquisition expense	—	—	2,124	—	—	—	2,124	909	872	343
Non-interest expense	4,840	3,014	487	2,017	738	13	11,109	6,449	3,680	980
Business realignment charges	75	17	8	25	3	64	192	142	44	6
Goodwill impairment	130	—	—	—	—	—	130	—	130	—
Net income before income taxes	2,038	716	251	791	342	82	4,220	3,461	28	731
Income taxes	730	226	(5)	164	118	(1)	1,232	1,149	3	80
Non-controlling interest	16	—	—	2	—	153	171	157	9	5
Net income (loss)	$ 1,292	$ 490	$ 256	$ 625	$ 224	$ (70)	$ 2,817	$ 2,155	$ 16	$ 646
Total average assets (1)	$ 172,300	$ 17,600	$ 9,300	$ 218,300	$ 2,000	$9,700	$429,200	$ 238,000	$95,500	$ 95,700

2003	RBC Banking	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,546	$ 419	$ —	$ 415	$ 166	$ 50	$ 6,596	$ 5,128	$ 1,210	$ 258
Non-interest income	2,127	3,110	2,356	2,241	824	164	10,822	5,426	3,537	1,859
Total revenues	7,673	3,529	2,356	2,656	990	214	17,418	10,554	4,747	2,117
Provision for credit losses	554	(2)	—	195	2	(28)	721	527	106	88
Insurance policyholder benefits, claims and acquisition expense	—	—	1,696	—	—	—	1,696	669	543	484
Non-interest expense	4,650	2,912	460	1,671	714	2	10,409	5,992	3,511	906
Net income before income taxes	2,469	619	200	790	274	240	4,592	3,366	587	639
Income taxes	900	209	(16)	278	97	(8)	1,460	1,202	208	50
Non-controlling interest	8	—	—	4	—	115	127	114	8	5
Net income	$ 1,561	$ 410	$ 216	$ 508	$ 177	$ 133	$ 3,005	$ 2,050	$ 371	$ 584
Total average assets (1)	$ 162,400	$ 17,600	$ 6,700	$ 198,500	$ 2,100	$9,100	$396,400	$ 230,000	$81,200	$ 85,200

2002	RBC Banking	RBC Investments	RBC Insurance	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	3,274	2,043	2,112	820	(2)	10,320	4,956	3,632	1,732
Total revenues	7,630	3,645	2,043	2,644	957	336	17,255	10,428	4,738	2,089
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	489	465	581
Non-interest expense	4,528	3,146	437	1,627	668	14	10,420	5,921	3,674	825
Net income before income taxes	2,476	500	71	552	279	357	4,235	3,489	159	587
Income taxes	937	157	(46)	135	108	74	1,365	1,305	16	44
Non-controlling interest	8	—	—	—	—	100	108	100	2	6
Net income	$ 1,531	$ 343	$ 117	$ 417	$ 171	$ 183	$ 2,762	$ 2,084	$ 141	$ 537
Total average assets (1)	$ 156,500	$ 15,100	$ 5,600	$ 178,200	$ 2,500	$9,400	$367,300	$ 225,700	$72,600	$ 69,000

(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 Investments, RBC Insurance, RBC Capital Markets and RBC Global Services. The Other segment mainly comprises Corporate Treasury, Corporate Resources and Information Technology.

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 primarily recorded in the location that best reflects the risk due to negative changes in economic conditions, and prospects for growth due to positive economic changes. This location frequently corresponds with the location of the legal entity through which the business is conducted and the location of the customer. Transactions are recorded in the local residing currency and are subject to foreign exchange rate fluctuations with respect to the movement in the Canadian dollar.

During the year, we revisited our geographic reporting and reclassified certain amounts to more appropriately reflect the way management reviews these results, consistent with the above methodology. Within RBC Insurance, certain reinsurance results were reclassified from United States and Canada to Other International.

Effective November 1, 2004, we realigned our organizational structure which resulted in the identification of new segments. Refer to Note 24 for a description of the new segments.

NOTE 4 GOODWILL AND OTHER INTANGIBLES

Coincident with the completion of our annual goodwill impairment test, our business realignment, effective November 1, 2004, was announced. The results of our goodwill impairment test, which was based on a discounted cash flow model, indicate that goodwill attributable to RBC Mortgage Company (RBC Mortgage) is impaired by approximately $130 million.

The following table discloses the changes in goodwill over 2004 and 2003.

Goodwill

	RBC Banking	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Total
Balance at October 31, 2002	$ 2,229	$ 1,761	$ 196	$ 697	$ 121	$5,004
Goodwill acquired during the year	256	43	—	—	—	299
Other adjustments (1)	(347)	(258)	(28)	(84)	1	(716)
Balance at October 31, 2003	2,138	1,546	168	613	122	4,587
Goodwill acquired during the year	127	105	—	—	—	232
Goodwill impairment	(130)	—	—	—	—	(130)
Other adjustments (1)	(165)	(125)	(12)	(18)	—	(320)
Balance at October 31, 2004	$ 1,970	$ 1,526	$ 156	$ 595	$ 122	$4,369

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

The projected amortization of Other intangibles for each of the years ending October 31, 2005, to October 31, 2009, is approximately $69 million. There were no writedowns of intangible assets due to impairment during the years ended October 31, 2004 and 2003.

Other intangibles

	2004			2003		
	Gross carrying amount	Accumulated amortization (1)	Net carrying amount	Gross carrying amount	Accumulated amortization (1)	Net carrying amount
Core deposit intangibles	**$ 365**	**$ (124)**	**$ 241**	$ 381	$ (93)	$ 288
Customer lists and relationships	**342**	**(99)**	**243**	314	(71)	243
Mortgage servicing rights	**68**	**(31)**	**37**	75	(27)	48
Other intangibles	**4**	**(2)**	**2**	3	(2)	1
	$ 779	**$ (256)**	**$ 523**	$ 773	$ (193)	$ 580

(1) Total amortization expense for 2004 and 2003 are $69 million and $71 million, respectively.

NOTE 5 SECURITIES

	Term to maturity (1)							
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	2004 Total	2003 Total
Trading account								
Canadian government debt	$ 1,582	$ 2,298	$ 3,828	$ 1,696	$ 1,678	$ —	$ 11,082	$ 13,671
U.S. government debt	278	21	1,157	207	131	—	1,794	4,298
Other OECD government debt (2)	435	481	1,500	1,051	377	—	3,844	3,576
Mortgage-backed securities	16	19	280	184	518	—	1,017	889
Asset-backed securities	253	7	160	1,598	229	—	2,247	6,305
Corporate debt and other debt								
Bankers' acceptances	597	481	—	—	—	—	1,078	1,686
Certificates of deposit	2,503	1,676	794	—	—	—	4,973	8,146
Other	3,493	4,401	12,098	7,644	3,263	438	31,337	21,835
Equities	—	—	—	—	—	31,950	31,950	27,126
	9,157	9,384	19,817	12,380	6,196	32,388	89,322	87,532
Investment account								
Canadian government debt								
Federal								
Amortized cost	2,222	1,753	2,834	81	8	—	6,898	8,810
Estimated fair value	2,223	1,750	2,876	82	8	—	6,939	8,914
Yield (3)	2.9%	2.7%	4.2%	5.7%	3.1%	—	3.4%	n.a.
Provincial and municipal								
Amortized cost	153	67	328	621	841	—	2,010	1,013
Estimated fair value	153	67	332	642	924	—	2,118	1,038
Yield (3)	2.7%	5.0%	3.9%	5.1%	6.3%	—	5.2%	n.a.
U.S. government debt								
Federal								
Amortized cost	17	98	94	49	217	—	475	726
Estimated fair value	17	98	94	50	207	—	466	718
Yield (3)	1.8%	2.9%	3.0%	4.6%	5.3%	—	4.1%	n.a.
State, municipal and agencies								
Amortized cost	—	879	2,389	151	—	—	3,419	4,102
Estimated fair value	—	875	2,364	149	—	—	3,388	4,071
Yield (3)	—	1.8%	2.5%	3.5%	—	—	2.4%	n.a.
Other OECD government debt (2)								
Amortized cost	788	901	36	—	—	—	1,725	4,775
Estimated fair value	802	901	36	—	—	—	1,739	4,781
Yield (3)	1.0%	1.2%	6.1%	—	—	—	1.2%	.1%
Mortgage-backed securities								
Amortized cost	—	48	3,242	828	1,920	—	6,038	5,512
Estimated fair value	—	49	3,262	839	1,932	—	6,082	5,543
Yield (3)	—	6.0%	4.1%	5.0%	4.5%	—	4.4%	4.5%
Asset-backed securities								
Amortized cost	158	58	241	548	387	—	1,392	325
Estimated fair value	158	58	242	551	386	—	1,395	322
Yield (3)	2.5%	4.0%	4.3%	2.7%	2.6%	—	3.0%	5.6%
Corporate debt and other debt								
Amortized cost	5,752	3,931	3,687	763	1,476	339	15,948	14,518
Estimated fair value	5,760	3,954	3,736	791	1,537	343	16,121	14,579
Yield (3)	1.8%	2.5%	2.8%	5.0%	6.0%	3.4%	2.8%	3.1%
Equities								
Cost	—	—	—	—	—	1,018	1,018	1,293
Estimated fair value	—	—	—	—	—	1,022	1,022	1,330
Amortized cost	9,090	7,735	12,851	3,041	4,849	1,357	38,923	41,074
Estimated fair value	9,113	7,752	12,942	3,104	4,994	1,365	39,270	41,296
Loan substitute								
Cost	—	—	—	—	400	301	701	325
Estimated fair value	—	—	—	—	400	315	715	331
Total carrying value of securities	$18,247	$17,119	$32,668	$ 15,421	$11,445	$34,046	$128,946	$128,931

Total estimated fair value of securities	**$18,270**	**$17,136**	**$32,759**	**$ 15,484**	**$11,590**	**$34,068**	**$129,307**	$129,159

(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) OECD stands for Organisation for Economic Co-operation and Development.

(3) The weighted average yield is based on the carrying value at the end of the year for the respective securities.

n.a. Due to the enhanced disclosure of Canadian government and U.S. government debt, the yields for 2003 were not reasonably determinable.

NOTE 5 SECURITIES (continued)

Unrealized gains and losses on Investment account securities

	2004				2003			
	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								
Federal	**$ 6,898**	**$ 46**	$ (5)	**$ 6,939**	$ 8,810	$ 108	$ (4)	$ 8,914
Provincial and municipal	**2,010**	**108**	**—**	**2,118**	1,013	27	(2)	1,038
U.S. government debt								
Federal	**475**	**2**	(11)	**466**	726	2	(10)	718
State, municipal and agencies	**3,419**	**1**	(32)	**3,388**	4,102	14	(45)	4,071
Other OECD government debt	**1,725**	**14**	**—**	**1,739**	4,775	6	—	4,781
Mortgage-backed securities	**6,038**	**53**	(9)	**6,082**	5,512	59	(28)	5,543
Asset-backed securities	**1,392**	**9**	(6)	**1,395**	325	5	(8)	322
Corporate debt and other debt	**15,948**	**186**	(13)	**16,121**	14,518	83	(22)	14,579
Equities	**1,018**	**55**	(51)	**1,022**	1,293	45	(8)	1,330
	$38,923	**$ 474**	$ (127)	**$39,270**	$41,074	$ 349	$ (127)	$41,296

Realized gains and losses on sale of Investment account securities

	2004	2003	2002
Realized gains	**$ 139**	$ 87	$ 82
Realized losses and writedowns	**(116)**	(56)	(193)
Gain (loss) on sale of Investment account securities	**$ 23**	$ 31	$(111)

NOTE 6 LOANS (1)

	2004	2003
Canada		
Residential mortgage	**$ 80,168**	$ 73,978
Personal	**30,415**	26,445
Credit card	**6,298**	4,663
Business and government	**31,162**	28,582
	148,043	133,668
United States		
Residential mortgage	**3,225**	4,094
Personal	**5,849**	5,015
Credit card	**108**	107
Business and government	**17,203**	17,414
	26,385	26,630
Other International		
Residential mortgage	**777**	745
Personal	**584**	726
Credit card	**50**	46
Business and government	**12,348**	10,634
	13,759	12,151
Total loans (2)	**188,187**	172,449
Allowance for loan losses	**(1,644)**	(2,055)
Total loans net of allowance for loan losses	**$186,543**	$170,394

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

(2) Loans are net of unearned income of $86 million (2003 — $113 million).

Loan maturities and rate sensitivity

	Maturity term (1)				Rate sensitivity			
As at October 31, 2004	Under 1 year	1 to 5 years	Over 5 years	Total	Floating	Fixed rate	Non-rate-sensitive	Total
Residential mortgage	$15,931	$63,730	$4,509	$ 84,170	$12,022	$ 72,002	$ 146	$ 84,170
Personal	26,810	8,004	2,034	36,848	30,176	6,483	189	36,848
Credit card	6,456	—	—	6,456	—	4,412	2,044	6,456
Business and government	49,219	8,399	3,095	60,713	28,058	31,731	924	60,713
Total loans	$98,416	$80,133	$9,638	188,187	$70,256	$114,628	$ 3,303	188,187
Allowance for loan losses				(1,644)				(1,644)
Total loans net of allowance for loan losses				$186,543				$186,543

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

Impaired loans

	2004	2003
Residential mortgage	$133	$118
Personal	78	96
Business and government (1)	561	774
	$772	$988

(1) Includes specific allowances of nil (2003 — nil) related to loan substitute securities.

Allowance for loan losses

	2004						2003
	Balance at beginning of year	Write-offs	Recoveries	Provision for credit losses	Adjustments	Balance at end of year	Balance at end of year
Residential mortgage	$ 37	$ (7)	$ —	$ (2)	$ (1)	$ 27	$ 37
Personal	437	(325)	68	255	4	439	437
Credit card	151	(207)	39	208	—	191	151
Business and government (1)	1,301	(462)	109	(87)	(11)	850	1,301
General unallocated allowance	238	—	—	(28)	(3)	207	238
Total allowance for credit losses	$ 2,164	$ (1,001)	$ 216	$ 346	$ (11)	$1,714	$2,164
Specific allowances	$ 757	$ (1,001)	$ 216	$ 521	$ (6)	$ 487	$ 757
General allowance							
General allocated	1,169	—	—	(147)	(2)	1,020	1,169
General unallocated	238	—	—	(28)	(3)	207	238
Total general allowance for credit losses	1,407			(175)	(5)	1,227	1,407
Total allowance for credit losses	$ 2,164	$ (1,001)	$ 216	$ 346	$ (11)	$1,714	$2,164
Allowance for off-balance sheet and other items (2)	(109)	—	—	—	39	(70)	(109)
Total allowance for loan losses	$ 2,055	$ (1,001)	$ 216	$ 346	$ 28	$1,644	$2,055

(1) Includes $70 million (2003 — $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 2004, 2003 and 2002:

New securitization activity

	2004			2003			2002		
	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	**$ —**	**$ 3,074**	**$ 486**	$ 1,000	$ 610	$ 131	$ —	$ 1,708	$ —
Net cash proceeds received	**—**	**3,035**	**497**	1,000	607	135	—	1,691	—
Retained rights to future excess interest	**—**	**75**	**—**	9	24	—	—	71	—
Pre-tax gain on sale	**—**	**36**	**11**	9	21	4	—	54	—

(1) Government guaranteed residential mortgage loans securitized during the year through the creation of mortgage-backed securities and retained were $1,903 million (2003 — $3,473 million; 2002 — $2,026 million). Retained mortgage-backed securities are classified as Investment account securities.

NOTE 7 SECURITIZATIONS (continued)

The key assumptions used to value the retained interests at the date of securitization, for activity in 2004, 2003 and 2002, are as follows:

Key assumptions (1)

	2004 (2)	2003		2002 (2)
	Residential mortgage loans	**Credit card loans**	**Residential mortgage loans**	**Residential mortgage loans**
Payment rate	**12.00%**	37.69%	12.00%	12.00%
Excess spread, net of credit losses	**.74**	5.74	1.17	1.20
Expected credit losses	**–**	1.64	–	–
Discount rate	**3.83**	10.00	4.11	4.75

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

(2) There were no credit card loans securitizations in 2004 and 2002.

The following table summarizes the loan principal, past due and net write-offs for total loans reported on our Consolidated balance sheet and securitized loans that we manage as at October 31, 2004 and 2003:

Loans managed

	2004			2003		
	Loan principal	**Past due (1)**	**Net write-offs**	**Loan principal**	**Past due (1)**	**Net write-offs**
Residential mortgage	**$ 93,221**	**$ 245**	**$ 7**	$ 85,029	$ 233	$ 10
Personal	**36,848**	**233**	**257**	32,186	287	305
Credit card	**8,356**	**54**	**204**	7,491	46	184
Business and government	**60,713**	**946**	**353**	56,630	1,401	342
Total loans managed (2)	**199,138**	**1,478**	**821**	181,336	1,967	841
Less: Loans securitized and managed (3)	**10,951**	**–**	**36**	8,887	–	29
Total loans reported on the Consolidated balance sheet	**$ 188,187**	**$ 1,478**	**$ 785**	$ 172,449	$ 1,967	$ 812

(1) Includes impaired loans as well as loans 90 days past due not yet 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 $1,900 million (2003 – $2,675 million), mortgage-backed securities created and sold of $5,983 million (2003 – $2,936 million), mortgage-backed securities created and retained of $3,068 million (2003 – $3,276 million).

At October 31, 2004, 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. 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 2004, 2003 and 2002.

Sensitivity of key assumptions to adverse changes (1)

	Impact on fair value	
	Credit card loans	**Residential mortgage loans**
Fair value of retained interests	$ 12.0	$ 130.5
Weighted average remaining service life (in years)	.2	2.1
Payment rate	43.21%	12.00%
Impact on fair value of 10% adverse change	$ (.8)	$ (2.6)
Impact on fair value of 20% adverse change	(1.5)	(5.1)
Excess spread, net of credit losses	6.86%	.93%

Impact on fair value of 10% adverse change	$ (1.2)	$ (13.1)
Impact on fair value of 20% adverse change	(2.4)	(26.1)
Expected credit losses	1.53%	–
Impact on fair value of 10% adverse change	$ (.4)	–
Impact on fair value of 20% adverse change	(.8)	–
Discount rate	10.00%	3.41%
Impact on fair value of 10% adverse change	$ –	$ (.4)
Impact on fair value of 20% adverse change	–	(.9)

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

Cash flows from securitizations

	2004		2003		2002	
	Credit card loans	**Residential mortgage loans**	**Credit card loans**	**Residential mortgage loans**	**Credit card loans**	**Residential mortgage loans**
Proceeds reinvested in revolving securitizations	**$ 10,028**	**$ 1,202**	$ 7,843	$ 1,268	$ 8,512	$ 303
Cash flows from retained interests in securitizations	**84**	**46**	64	13	64	15

NOTE 8 PREMISES AND EQUIPMENT

	2004			2003
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 149	$ –	$ 149	$ 154
Buildings	608	304	304	331
Computer equipment	1,996	1,366	630	551
Furniture, fixtures and other equipment	1,068	716	352	280
Leasehold improvements	905	584	321	354
	$4,726	$ 2,970	$ 1,756	$ 1,670

The depreciation expense for premises and equipment amounted to $396 million, $398 million and $407 million in 2004, 2003 and 2002, respectively.

NOTE 9 OTHER ASSETS

	2004	2003
Receivable from brokers, dealers and clients	$ 6,279	$ 2,568
Accrued interest receivable	1,636	1,460
Investment in associated corporations	1,316	1,343
Insurance-related assets (1)	1,120	1,024
Net deferred income tax asset	781	724
Prepaid pension benefit cost (2)	631	693
Other	5,381	5,202
	$17,144	$13,014

(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

	2004				2003
	Demand (1)	Notice (2)	Term (3)	Total	Total
Personal	$ 12,731	$34,054	$ 66,224	$113,009	$106,709
Business and government	44,706	9,329	78,035	132,070	129,860
Bank	2,301	57	23,522	25,880	22,576
	$ 59,738	$43,440	$167,781	$270,959	$259,145
Non-interest-bearing					
Canada				$ 28,081	$ 24,029
United States				2,284	2,076
Other International				885	1,107
Interest-bearing					
Canada				140,232	129,197
United States				34,142	36,285
Other International				65,335	66,451
				$270,959	$259,145

(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 primarily 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, 2004, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $13.4 billion (2003 – $11.9 billion) and other notes and similar instruments in bearer form we have issued of $27.3 billion (2003 – $27.3 billion).

NOTE 11 OTHER LIABILITIES

	2004	2003
Short-term borrowings of subsidiaries	**$11,176**	$ 7,842
Payable to brokers, dealers and clients	**5,069**	3,241
Accrued interest payable	**1,697**	1,640
Accrued pension and other postretirement benefit expense (1)	**853**	702
Insurance-related liabilities	**618**	386
Dividends payable	**347**	313
Other	**7,815**	7,194
	$27,575	$21,318

(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	2004	2003
March 15, 2009			6.50%		US$ 125	**$ 152**	$ 165
April 12, 2009		(1)	5.40%			**–**	350
June 11, 2009		(2)	5.10%			**–**	350
July 7, 2009		(3)	6.05%			**–**	175
October 12, 2009		(4)	6.00%			**–**	150
August 15, 2010	August 15, 2005	(5)	6.40%	(6)		**688**	700
February 13, 2011	February 13, 2006	(7)	5.50%	(6)		**122**	125
April 26, 2011	April 26, 2006	(8)	8.20%	(6)		**77**	100
September 12, 2011	September 12, 2006	(5)	6.50%	(6)		**349**	350
October 24, 2011	October 24, 2006	(9)	6.75%	(10)	US$ 300	**350**	396
November 8, 2011	November 8, 2006	(11)		(12)	US$ 400	**488**	526
June 4, 2012	June 4, 2007	(5)	6.75%	(6)		**500**	500
January 22, 2013	January 22, 2008	(13)	6.10%	(6)		**497**	500
January 27, 2014	January 27, 2009	(7)	3.96%	(6)		**500**	–
June 1, 2014	June 1, 2009	(14)	4.18%	(6)		**1,000**	–
November 14, 2014			10.00%			**200**	200
January 25, 2015	January 25, 2010	(15)	7.10%	(6)		**498**	500
April 12, 2016	April 12, 2011	(16)	6.30%	(6)		**382**	400
November 4, 2018	November 4, 2013	(17)	5.45%	(6)		**1,000**	–
June 8, 2023			9.30%			**110**	110
October 1, 2083		(18)		(19)		**250**	250
June 6, 2085		(18)		(20)	US$ 300	**365**	396
June 18, 2103	June 18, 2009	(21)	5.95%	(22)		**588**	–
						$8,116	$6,243

(1) Redeemed on April 12, 2004, at par value.

(2) Redeemed on June 11, 2004, at par value.

(3) Redeemed on July 7, 2004, at par value.

(4) Redeemed on October 12, 2004, 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 5 basis points and (ii) par value, and thereafter at any time at par value.

(6) 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.

(7) 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.

(8) 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.

(9) 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.

(10) 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.

(11) Redeemable on the earliest par value redemption date at par value.

(12) 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.

(13) 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.

(14) 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 9 basis points and (ii) par value, and thereafter at any time at par value.

(15) 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.

(16) 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.

(17) 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 14 basis points and (ii) par value, and thereafter at any time at par value.

(18) Redeemable on any interest payment date at par value.

(19) Interest at a rate of 40 basis points above the 30-day Bankers' Acceptance rate.

(20) 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.

(21) Redeemable on June 18, 2009, or every fifth anniversary of such date at par value. Redeemable on any other date at the greater of par and the yield on a non-callable Government of Canada bond plus .21% if redeemed prior to June 18, 2014, or .43% if redeemed at any time after June 18, 2014.

(22) Interest at a rate of 5.95% until earliest par value redemption date and every 5 years thereafter at the 5-year Government of Canada yield plus 1.72%.

Maturity schedule

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

At October 31, 2004	Total
1 to 5 years	$ 152
5 to 10 years	4,571
Thereafter	3,393
Total	$8,116

NOTE 13 NON-CONTROLLING INTEREST IN SUBSIDIARIES

	2004	2003
Trust Capital Securities issued by RBC Capital Trust (1)	**$1,434**	$1,434
Trust Capital Securities issued by RBC Capital Trust II (1)	**917**	914
Other	**58**	40
	$2,409	$2,388

(1) Including accrued distribution amounts.

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, 2004, 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**
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 holdings for 40 non-cumulative redeemable First Preferred Shares Series U, for each RBC TruCS Series 2013 held.

(4) The RBC TruCS Series 2010 and 2011 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. The RBC TruCS Series 2013 may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs prior to December 31, 2013 or (ii) the Redemption Price if the redemption occurs on or after December 31, 2013. 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 SHARE CAPITAL

Authorized share capital

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 shares

	2004			2003			2002		
	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
US$ Non-cumulative Series I (1)	**–**	**–**	**–**	–	–	–	–	–	US .02
Non-cumulative Series J (1)	**–**	**–**	**–**	–	–	.90	12,000	300	1.78
US$ Non-cumulative Series K (1)	**–**	**–**	**–**	–	–	US .80	10,000	389	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	132	US 1.44	4,000	156	US 1.44
Non-cumulative Series S	**10,000**	**250**	**1.53**	10,000	250	1.53	10,000	250	1.53
		$ 832			$ 832			$1,545	
Common									
Balance at beginning of year	**656,021**	**$7,018**		665,257	$6,979		674,021	$6,940	
Issued under the stock option plan (2)	**3,328**	**127**		5,303	193		5,211	176	
Issued on the acquisition of Richardson Greenshields Limited (3)	**–**	**–**		–	–		318	15	
Purchased for cancellation	**(14,601)**	**(157)**		(14,539)	(154)		(14,293)	(152)	
Balance at end of year	**644,748**	**$6,988**	**$ 2.02**	656,021	$7,018	$ 1.72	665,257	$6,979	$ 1.52
Treasury									
Reclassified amounts	**4,950**	**$ (304)**		–	–		–	–	
Net sales	**(87)**	**10**		–	–		–	–	
Balance at end of year	**4,863**	**$ (294)**	**–**	–	–	–	–	–	–

(1) On May 26, 2003, we redeemed First Preferred Shares Series J and K. On October 11, 2002, we redeemed First Preferred Shares Series E and I, respectively.

(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 $5 million (2003 – $4 million) and from renounced tandem SARs, net of related income taxes, of $3 million (2003 – $6 million).

(3) During 2002, we exchanged 1,846,897 Class C shares issued by our wholly owned subsidiary, Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited for 318,154 common shares.

Terms of preferred shares

				Conversion dates	
	Dividend per share (1)	Redemption date (2)	Redemption price (3)	At the option of the bank (2), (4)	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 C$26 and US$26, respectively, 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 C$25 and US$25, respectively, 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.

We have also agreed that if, on any day we report financial results for a fiscal quarter, (a) we report a cumulative consolidated net loss for the immediately preceding four quarters; and (b) during the immediately preceding fiscal quarter we fail to declare any cash dividends on all of our outstanding preferred and common shares, we may defer payments of interest on the Series 2014-1 Reset Subordinated Notes (matures on June 18, 2103). During any period while interest is being deferred, (i) interest will accrue on these notes but will not compound; (ii) we may not declare or pay dividends (except by way of stock dividend) on, or redeem or repurchase, any of its preferred or common shares; and (iii) we may not make any payment of interest, principal or premium on any debt securities or indebtedness for borrowed money issued or incurred by us that rank subordinate to these notes.

Normal course issuer bid

Details of common shares repurchased under normal course issuer bids during 2004, 2003 and 2002 are given below.

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, 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, 2004, our Tier 1 and Total capital ratios were 8.9% and 12.4%, respectively (2003 –9.7% and 12.8%, respectively).

In the evaluation of our assets-to-capital multiple, OSFI specifies that total assets, including specified off-balance sheet financial instruments, should be no greater than 23 times Total capital. At October 31, 2004, our assets-to-capital multiple was 18.1 times (2003 – 18.2 times).

Dividend reinvestment plan

We announced on August 27, 2004, the implementation of a dividend reinvestment plan for registered common shareholders. The plan provides registered common shareholders with a means to automatically reinvest the cash dividends paid on their common shares in the purchase of additional common shares. The plan is only open to shareholders residing in Canada or the United States.

The first dividend eligible for the plan was paid November 24, 2004, to shareholders of record on October 26, 2004. Management has the flexibility to fund the plan through open market share purchases or treasury issuances.

		2004			2003			2002		
	Number of shares eligible for repurchase (000s)	**Number of shares repurchased (000s)**	**Average cost per share**	**Amount**	**Number of shares repurchased (000s)**	**Average cost per share**	**Amount**	**Number of shares repurchased (000s)**	**Average cost per share**	**Amount**
June 24, 2004 – June 23, 2005	**25,000**	**6,412**	**$ 60.56**	**$ 388**	–	$ –	$ –	–	$ –	$ –
June 24, 2003 – June 23, 2004	**25,000**	**8,189**	**61.54**	**504**	5,910	59.30	350	–	–	–
June 24, 2002 – June 23, 2003	**20,000**	**–**	**–**	**–**	8,629	58.09	502	9,819	52.27	513
June 22, 2001 – June 21, 2002	**18,000**	**–**	**–**	**–**	–	–	–	4,474	56.02	251
		14,601	**$ 61.11**	**$ 892**	14,539	$ 58.58	$ 852	14,293	$ 53.45	$ 764

NOTE 15 INCOME TAXES

	2004	2003	2002
Income taxes in Consolidated statement of income			
Current			
Canada – Federal	**$ 659**	$ 741	$ 703
Provincial	**338**	326	272
International	**158**	322	153
	1,155	1,389	1,128
Deferred			
Canada – Federal	**12**	75	167
Provincial	**12**	29	57
International	**53**	(33)	13
	77	71	237
	1,232	1,460	1,365
Income taxes (recoveries) in Consolidated statement of changes in shareholders' equity			
Unrealized foreign currency translation gains and losses, net of hedging activities	**328**	1,064	100
Issuance costs	**—**	(3)	—
Stock appreciation rights	**3**	4	25
AcG 17, *Equity-Linked Deposit Contracts*	**(1)**	—	—
	330	1,065	125
Total income taxes	**$1,562**	$2,525	$1,490

Deferred income taxes

	2004	2003
Deferred income tax asset (1)		
Allowance for credit losses	**$ 464**	$ 505
Deferred compensation	**320**	348
Pension related	**100**	12
Business realignment charges	**60**	—
Tax loss carryforwards	**29**	35
Deferred income	**176**	166
Other	**266**	299
	1,415	1,365
Valuation allowance	**(12)**	(16)
	1,403	1,349
Deferred income tax liability		
Premises and equipment	**(192)**	(14)
Deferred expense	**(226)**	(178)
Other	**(204)**	(433)
	(622)	(625)
Net deferred income tax asset	**$ 781**	$ 724

(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

	2004		2003		2002	
Income taxes reported in Consolidated statement of income/effective tax rate						
Income taxes at Canadian statutory tax rate	**$1,477**	**35.0%**	$1,672	36.4%	$1,630	38.5%
Increase (decrease) in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	**(224)**	**(5.3)**	(179)	(3.9)	(244)	(5.8)
Tax-exempt income from securities	**(54)**	**(1.3)**	(44)	(1.0)	(39)	(.9)
Goodwill impairment	**46**	**1.1**	–	–	–	–
Tax rate change	**(10)**	**(.2)**	31	.7	33	.8
Other	**(3)**	**(.1)**	(20)	(.4)	(15)	(.4)
	$1,232	**29.2%**	$1,460	31.8%	$1,365	32.2%

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 $714 million as at October 31, 2004 (2003 – $728 million; 2002 – $841 million).

NOTE 16 INSURANCE OPERATIONS

Insurance claims and policy benefit liabilities

	2004	2003
Claims liabilities	**$ 444**	$ 374
Future policy benefits liabilities	**6,394**	4,882
Insurance claims and policy benefit liabilities	**$6,838**	$5,256

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.

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

	2004	2003	2002
Gross premiums	**$2,956**	$ 2,979	$2,297
Ceded premiums	**(574)**	(1,014)	(530)
Net premiums	**$2,382**	$ 1,965	$1,767

Reinsurance recoverables, which are included in Other assets, include amounts related to paid benefits, unpaid claims, future policy benefits and certain policyholder contract deposits.

Reinsurance recoverables

	2004	2003
Claims paid	**$ 63**	$230
Future policy benefits	**546**	489
Reinsurance recoverables	**$609**	$719

NOTE 17 PENSIONS AND OTHER POSTRETIREMENT BENEFITS

We offer a number of defined benefit and defined contribution plans, which provide pension and postretirement benefits to eligible employees.

Components of the change in our plan assets, weighted average asset allocations by category and benefit obligations year over year are as follows:

Plan assets, benefit obligation and funded status

	Pension plans (1)		Other postretirement plans (2)	
	2004	2003	2004	2003
Change in fair value of plan assets (3)				
Opening fair value of plan assets	**$4,657**	$3,747	**$ —**	$ —
Actual return on plan assets	**475**	415	**—**	—
Company contributions	**221**	670	**27**	27
Plan participant contributions	**24**	23	**2**	1
Benefits paid	**(284)**	(263)	**(29)**	(28)
Business acquisitions	**—**	97	**—**	—
Change in foreign currency exchange rate	**(26)**	(32)	**—**	—
Closing fair value of plan assets	**$5,067**	$4,657	**$ —**	$ —
Change in benefit obligation				
Opening benefit obligation	**$5,282**	$4,590	**$ 1,379**	$ 1,067
Service cost	**136**	120	**48**	39
Interest cost	**330**	306	**91**	80
Plan participant contributions	**24**	23	**2**	1
Actuarial loss (gain)	**34**	443	**(61)**	214
Benefits paid	**(284)**	(263)	**(29)**	(28)
Plan amendments and curtailments	**20**	—	**—**	1
Business acquisitions	**—**	123	**—**	18
Change in foreign currency exchange rate	**(39)**	(60)	**(11)**	(13)
Closing benefit obligation	**$5,503**	$5,282	**$ 1,419**	$ 1,379
Funded status				
Excess of benefit obligation over plan assets	**$ (436)**	$ (625)	**$ (1,419)**	$ (1,379)
Unrecognized net actuarial loss	**855**	1,071	**455**	549
Unrecognized transition (asset) obligation	**(17)**	(19)	**157**	174
Unrecognized prior service cost	**168**	181	**12**	13
Contributions between September 30 and October 31	**1**	25	**2**	2
Other	**—**	(1)	**—**	—
Prepaid asset (accrued liability) as at October 31	**$ 571**	$ 632	**$ (793)**	$ (641)
Amounts recognized in the Consolidated balance sheet consist of:				
Other assets	**$ 631**	$ 693	**$ —**	$ —
Other liabilities	**(60)**	(61)	**(793)**	(641)
Net amount recognized as at October 31	**$ 571**	$ 632	**$ (793)**	$ (641)
Weighted average assumptions to calculate benefit obligation				
Discount rate	**6.25%**	6.25%	**6.50%**	6.50%
Rate of increase in future compensation	**4.40%**	4.40%	**4.40%**	4.40%

Asset category

	Actual	
	2004	2003
Equity securities	**59%**	59%
Debt securities	**41**	41
Total	**100%**	100%

(1) For pension plans with projected benefit obligations that were more than plan assets, the benefit obligation and fair value of plan assets for all these plans totalled $4,953 million (2003 – $4,991 million) and $4,437 million (2003 – $4,328 million), respectively.

(2) Includes postretirement health, dental and life insurance. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the postretirement health and life plans were 8% for medical and 5% for dental, decreasing to an ultimate rate of 4% in 2013.

(3) Plan assets includes 680,400 (2003 – 525,342) Royal Bank of Canada common shares having a fair value of $41 million (2003 – $31 million). In addition, dividends amounting to $1.4 million (2003 – $1.1 million) were received on Royal Bank of Canada common shares held in the plan assets during the year.

Note: Total cash payments were $287 million (2003 – $567 million) for our pension and postretirement benefits for 2004.

The measurement date used for financial reporting purposes of the pension plan assets and benefit obligation is September 30. The most recent actuarial valuation filed for funding purposes was completed on January 1, 2004. For our principal pension plan, the next required actuarial valuation for funding purposes will be completed on January 1, 2005.

Pension benefit expense

	2004	2003	2002
Service cost	**$ 136**	$ 120	$ 113
Interest cost	**330**	306	297
Expected return on plan assets	**(315)**	(300)	(300)
Amortization of transition asset	**(2)**	(2)	(2)
Amortization of prior service cost	**32**	31	32
Amortization of actuarial loss (gain)	**84**	15	(27)
Settlement loss	**—**	—	52
Other	**—**	—	(45)
Defined benefit pension expense	**265**	170	120
Defined contribution pension expense	**64**	67	61
Pension benefit expense	**$ 329**	$ 237	$ 181
Weighted average assumptions to calculate pension benefit expense			
Discount rate	**6.25%**	6.75%	7.00%
Assumed long-term rate of return on plan assets	**7.00%**	7.00%	7.00%
Rate of increase in future compensation	**4.40%**	4.40%	4.40%

Other postretirement benefit expense

	2004	2003	2002
Service cost	**$ 48**	$ 39	$ 22
Interest cost	**91**	80	51
Amortization of transition obligation	**17**	17	17
Amortization of actuarial loss (gain)	**32**	24	—
Amortization of prior service cost	**1**	1	2
Other postretirement benefit expense	**$ 189**	$ 161	$ 92
Weighted average assumptions to calculate other postretirement benefit expense			
Discount rate	**6.50%**	7.00%	7.25%
Rate of increase in future compensation	**4.40%**	4.40%	4.40%

2004 sensitivity of key assumptions

Pensions	**Change in obligation**	**Change in expense**
Impact of .25% change in discount rate assumption	**$ 181**	**$ 22**
Impact of .25% change in rate of increase in future compensation assumption	**23**	**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	**$ 67**	**$ 8**
Impact of .25% change in rate of increase in future compensation assumption	**2**	**—**
Impact of 1.00% increase in health care cost trend rates	**247**	**30**
Impact of 1.00% decrease in health care cost trend rates	**(194)**	**(28)**

Reconciliation of defined benefit expense recognized with defined benefit expense incurred

The cost of pension and other postretirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service, and based on management's best estimate of expected plan investment performance, salary escalation, discount rate, retirement ages of employees and health care costs. Actuarial gains or losses arise from changes in benefit obligation assumptions and the difference between the expected and actual investment performance. Adoption of the Canadian Institute of Chartered Accountants Handbook Section 3461 resulted in recognition of the transitional asset and obligation at the date of transition. The transitional asset or obligation, actuarial gains or losses and prior service costs resulting from plan amendments are amortized over the expected average remaining service lifetime of active members expected to receive benefits under the plan. The following tables show the differences between the benefit expenses with and without amortization.

Defined benefit pension expense incurred

	2004	2003	2002
Defined benefit pension expense recognized	**$ 265**	$ 170	$120
Difference between expected and actual return on plan assets	**(160)**	(115)	431
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	**(50)**	428	306
Difference between prior service costs amortized and prior service costs arising	**(12)**	(31)	(32)

Amortization of transition asset	**2**	2	2
Defined benefit pension expense incurred	**$ 45**	$ 454	$827

Other postretirement benefit expense incurred

	2004	2003	2002
Other postretirement benefit expense recognized	**$189**	$161	$ 92
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	**(93)**	190	318
Difference between prior service costs amortized and prior service costs arising	**(1)**	—	5
Amortization of transition obligation	**(17)**	(17)	(17)
Other postretirement benefit expense incurred	**$ 78**	$334	$398

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 discontinued on a permanent basis all further grants of options under the non-employee 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 $3 million for the year ended October 31, 2004 (2003 – $34 million; 2002 – $44 million).

Stock options

	2004		2003		2002	
	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	**24,803**	**$ 42.06**	28,479	$ 39.54	30,158	$ 36.84
Granted	**1,189**	**62.63**	1,985	58.03	4,215	49.12
Exercised – Common shares	**(3,328)**	**35.94**	(5,303)	34.48	(5,211)	32.07
– SARs	**(176)**	**41.35**	(170)	37.35	(291)	34.01
Cancelled	**(116)**	**47.86**	(188)	47.55	(392)	38.37
Outstanding at end of year	**22,372**	**$ 44.04**	24,803	$ 42.06	28,479	$ 39.54
Exercisable at end of year	**16,401**	**$ 40.43**	15,415	$ 38.24	14,050	$ 36.07
Available for grant	**13,215**		14,309		16,105	

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–$15.68	**117**	**$ 15.68**	**2.0**	**117**	**$ 15.68**
$24.80–$28.25	**1,183**	**26.27**	**5.1**	**1,183**	**26.27**
$30.00–$39.64	**9,279**	**36.61**	**5.2**	**9,279**	**36.61**
$43.59–$49.36	**8,671**	**49.14**	**7.4**	**5,323**	**49.13**
$50.00–$59.35	**1,939**	**57.96**	**9.0**	**492**	**57.90**
$60.00–$62.63	**1,183**	**62.63**	**10.0**	**7**	**62.63**
Total	**22,372**	**$ 44.04**	**6.6**	**16,401**	**$ 40.43**

Fair value method

CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments* (CICA 3870), 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, 2004, in respect of these plans was $9 million (2003 – $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 2004, 2003 and 2002 for awards granted before 2003 as indicated below:

Pro forma net income and earnings per share

	As reported			Pro forma (1)		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
Net income	**$2,817**	$3,005	$2,762	**$2,785**	$2,970	$2,730
Earnings per share	**4.29**	4.44	3.96	**4.24**	4.39	3.91
Diluted earnings per share	**4.23**	4.39	3.93	**4.18**	4.35	3.89

(1) Compensation expense under the fair value 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 2004 was estimated on the date of grant using an option pricing model with the following assumptions: (i) risk-free interest rate of 4.22% (2003 – 4.61%; 2002 – 4.89%), (ii) expected option life of six years (2003 – six years; 2002 – six years), (iii) expected volatility of 18% (2003 – 20%; 2002 – 20%) and (iv) expected dividends of 2.90% (2003 – 2.95%; 2002 – 2.90%). The fair value of each option granted was $10.93 (2003 – $11.60; 2002 – $10.02).

Employee share ownership plans

We offer many employees an opportunity to own our shares 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 $54 million (2003 – $55 million; 2002 – $49 million), under the terms of these plans, towards the purchase of common shares. As at October 31, 2004, an aggregate of 17,905,473 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, 2004, was $111 million (2003 – $105 million; 2002 – $73 million). The share appreciation and dividend-related compensation expense recorded for the year ended October 31, 2004, in respect of these plans was $4 million (2003 – $16 million; 2002 – $16 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 three following 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, 2004, was $241 million (2003 – $215 million; 2002 – $187 million). The share appreciation and dividend-related compensation expense for the year ended October 31, 2004, in respect of this plan was $4 million (2003 – $22 million; 2002 – $20 million).

We offer deferred share plans to certain key employees within RBC Investments with various vesting periods up to a maximum of five years. Awards under some of these plans may be deferred in the form of common shares, which are held in trust, or DSUs. The participant is not allowed to convert the DSU until retirement, permanent disability or termination of employment. The cash value of DSUs is equivalent to the market value of common shares when conversion takes place. Certain plans award share units that track the value of common shares with payout in cash at the end of a maximum five-year term. The value of deferred shares held in trust as at October 31, 2004, was $59 million (2003 – $58 million; 2002 – $34 million). The value of the various share units as at October 31, 2004, was $20 million (2003 – $26 million; 2002 – $10 million). The stock-based compensation expense recorded for the year ended October 31, 2004, in respect of these plans, was $14 million (2003 – $30 million; 2002 – $32 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 20 North American financial institutions. The value of common shares held as at October 31, 2004, was $195 million (2003 – $102 million; 2002 – $34 million). Compensation expense of $70 million (2003 – $33 million; 2002 – $11 million) was recognized for the year ended October 31, 2004, 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. No awards have been made under this program since 2001. The value of the share units as at October 31, 2004 was nil (2003 – $9 million; 2002 – $16 million). The compensation expense recorded for the year ended October 31, 2004, in respect of this plan was nil (2003 – $5 million; 2002 – $12 million).

We maintain a non-qualified deferred compensation plan for key employees in the United States under an arrangement called the RBC US 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 a share unit fund that tracks the value of our common shares. Certain deferrals may also be eligible for matching contributions. 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, 2004, was $159 million (2003 – $111 million; 2002 – $70 million). The compensation expense recorded for the year ended October 31, 2004, was $24 million (2003 – $10 million; 2002 – $12 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 $36 million as at October 31, 2004 (2003 – $100 million; 2002 – $151 million). The compensation expense recorded for the year ended October 31, 2004, in respect of this plan was $16 million (2003 – $63 million; 2002 – $74 million).

For other stock-based plans, compensation expense of $4 million was recognized for the year ended October 31, 2004 (2003 – $8 million; 2002 – $19 million). The value of the share units and shares held under these plans as at October 31, 2004, was $13 million (2003 – $13 million; 2002 – $10 million).

The information provided earlier in this section excludes the impact of derivatives, which we use to mitigate our exposure to volatility in the price of our common shares under many of these deferred share plans.

NOTE 19 EARNINGS PER SHARE

	2004	2003	2002
Basic earnings per share			
Net income	**$ 2,817**	$ 3,005	$ 2,762
Preferred share dividends	**(45)**	(68)	(98)
Net income available to common shareholders	**$ 2,772**	$ 2,937	$ 2,664
Average number of common shares (in thousands)	**646,732**	662,080	672,571
	$ 4.29	$ 4.44	$ 3.96
Diluted earnings per share			
Net income available to common shareholders	**$ 2,772**	$ 2,937	$ 2,664
Average number of common shares (in thousands)	**646,732**	662,080	672,571
Convertible Class B and C shares (1)	**–**	–	14
Stock options (2)	**6,075**	6,936	5,535
Issuable under other stock-based compensation plans	**2,701**	–	–
Average number of diluted common shares (in thousands)	**655,508**	669,016	678,120
	$ 4.23	$ 4.39	$ 3.93

(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. In 2002, 1,846,897 Class C shares were exchanged for 318,154 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 1,087,188 with an exercise price of $62.63 (2003– 25,205 at $59.35; 2002 – 9,761 at $53.76) 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 that 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

	2004
Credit derivatives/written put options (1)	**$32,342**
Backstop liquidity facilities	**24,464**
Financial standby letters of credit/performance guarantees	**14,138**
Stable value products (1)	**7,709**
Credit enhancements	**3,935**
Mortgage loans sold with recourse	**296**

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

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 five years.

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 one 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.

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 eight 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 sell stable value products that offer book value protection primarily to plan sponsors of *Employee Retirement Income Security Act* (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.

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 one and four years.

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 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

	2004	2003
Documentary and commercial letters of credit	**$ 592**	$ 2,014
Securities lending	**27,055**	17,520
Commitments to extend credit		
Original term to maturity of 1 year or less	**45,682**	40,432
Original term to maturity of more than 1 year	**28,912**	28,182
Uncommitted amounts	**60,972**	59,801
Note issuance/revolving underwriting facilities	**23**	24
	$163,236	$147,973

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

2005	$ 405
2006	374
2007	312
2008	265
2009	233
Thereafter	829
	$2,418

Litigation

Enron Corp. (Enron) litigation

Royal Bank of Canada and certain related entities are defendants in the adversary proceedings in the United States Bankruptcy Court, Southern District of New York, previously brought by Enron (and related debtor affiliates) along with numerous other financial institution defendants.

Royal Bank of Canada and certain related entities are also named as defendants in an action commenced by a putative class of purchasers of Enron publicly traded equity and debt securities between January 9, 1999 and November 27, 2001, entitled *Regents of the University of California v. Royal Bank of Canada* in the United States District Court, Southern District of Texas (Houston Division). This case has been consolidated with the lead action captioned *Newby v. EnronCorp.*, which is the main consolidated putative Enron shareholder class action wherein similar claims have been made against numerous other financial institutions. In addition, Royal Bank of Canada and certain related entities are named as defendants in Enron-related cases, which are filed in various courts in the U.S., asserting similar claims filed by purchasers of Enron securities. Royal Bank of Canada is also a third-party defendant in cases in which Enron's accountants, Arthur Andersen LLP, filed third-party claims against a number of parties, seeking contribution if Arthur Andersen LLP is found liable to plaintiffs in these actions.

It is not possible to predict the ultimate outcome of these lawsuits or the timing of their resolution. Management reviews the status of these matters on an ongoing basis and will exercise its judgment in resolving them in such manner as it believes to be in our best interests. We will defend ourselves vigorously in these cases. However, given the significant uncertainties surrounding the timing and outcome of this litigation, the large number of cases, the multiple defendants in many of them, the novel issues presented, the length of time before these cases will be resolved by settlement or through litigation, and the current difficult litigation environment, no provision for loss has been recorded in the consolidated financial statements as it is presently not possible to determine our ultimate exposure for these matters. Management believes the ultimate resolution of these lawsuits and other proceedings, while not likely to have a material adverse effect on our consolidated financial position, may be material to our operating results for any particular period.

NOTE 20 GUARANTEES, COMMITMENTS AND CONTINGENCIES (continued)

Rabobank settlement

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, recorded in Other assets, Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank) initiated an action against us in New York State Court in an effort to nullify its obligation under the swap. On June 24, 2002, we instituted proceedings against Rabobank in the High Court in London, alleging that Rabobank had repudiated its obligation under the swap.

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 with Enron, the Enron Creditors' Committee and Rabobank. The settlement received reduced the amount owing by Rabobank to US$322 million plus interest.

On February 16, 2004, Royal Bank of Canada announced that it had reached a confidential settlement, through non-binding mediation with Rabobank, resolving this litigation. The settlement, net of a related reduction in compensation and tax expenses, decreased Net income in 2004 by $74 million.

Other

Various other legal proceedings are pending that challenge certain of our practices or actions. Management considers that the aggregate liability resulting from these other proceedings will not be material to our financial position or results of operations.

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

	2004	2003
Assets pledged to:		
Foreign governments and central banks	**$ 1,172**	$ 1,220
Clearing systems, payment systems and depositories	**1,257**	1,055
Assets pledged in relation to:		
Derivative transactions	**3,759**	2,415
Securities borrowing and lending	**33,810**	29,489
Obligations related to securities sold under repurchase agreements	**21,705**	23,735
Other	**3,298**	2,575
	$65,001	$60,489

Collateral

At October 31, 2004, the approximate market value of collateral accepted that may be sold or repledged by us was $63.5 billion (2003– $63.1 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions.

Of this amount, $28.2 billion (2003– $40.4 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 and futures are contractual obligations 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 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.

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 counter party 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 specified 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 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. Certain warrants and loan commitments that meet the definition of derivative are also included as derivative instruments.

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.

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, 2004.

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. Excluded from the table below are notional amounts of $1,673 million (2003 – $1,096 million), relating to certain warrants and loan commitments reported as derivatives.

Notional amount of derivatives by term to maturity

	Term to maturity				2004		2003	
	Within 1 year	1 to 5 years	Over 5 years (1)	Total	Trading	Other than trading	Trading	Other than trading
Over-the-counter contracts								
Interest rate contracts								

Forward rate agreements	**$ 49,818**	**$ 660**	**$ –**	**$ 50,478**	**$ 48,150**	**$ 2,328**	$ 71,845	$ 2,970
Swaps	**260,328**	**526,014**	**223,451**	**1,009,793**	**904,263**	**105,530**	855,482	99,293
Options purchased	**16,728**	**20,258**	**4,456**	**41,442**	**41,439**	**3**	43,585	3
Options written	**17,122**	**20,050**	**4,719**	**41,891**	**41,771**	**120**	47,009	–
Foreign exchange contracts								
Forward contracts	**507,869**	**26,658**	**2,006**	**536,533**	**515,902**	**20,631**	463,561	15,027
Cross currency swaps	**1,277**	**7,167**	**6,101**	**14,545**	**13,731**	**814**	10,805	–
Cross currency interest rate swaps	**16,684**	**85,816**	**42,926**	**145,426**	**139,409**	**6,017**	91,990	4,062
Options purchased	**114,063**	**7,029**	**6**	**121,098**	**120,892**	**206**	74,391	207
Options written	**121,886**	**8,646**	**6**	**130,538**	**130,538**	**–**	79,383	–
Credit derivatives (2)	**4,852**	**84,805**	**22,679**	**112,336**	**109,865**	**2,471**	53,693	1,094
Other contracts (3)	**18,031**	**10,521**	**19,326**	**47,878**	**47,599**	**279**	26,489	444
Exchange-traded contracts								
Interest rate contracts								
Futures – long positions	**45,486**	**8,900**	**12**	**54,398**	**53,667**	**731**	39,005	–
Futures – short positions	**50,641**	**6,012**	**193**	**56,846**	**56,486**	**360**	33,878	306
Options purchased	**79,810**	**5,355**	**–**	**85,165**	**84,739**	**426**	67,311	198
Options written	**28,160**	**4,767**	**–**	**32,927**	**32,745**	**182**	28,057	198
Foreign exchange contracts								
Futures – long positions	**222**	**–**	**–**	**222**	**222**	**–**	546	–
Futures – short positions	**690**	**–**	**–**	**690**	**690**	**–**	670	–
Other contracts (3)	**39,726**	**377**	**–**	**40,103**	**40,103**	**–**	26,256	–
	$1,373,393	**$823,035**	**$325,881**	**$2,522,309**	**$2,382,211**	**$140,098**	$2,013,956	$123,802

(1) Includes contracts maturing in over 10 years with a notional value of $66,491 million (2003 – $48,935 million). The related gross positive replacement cost is $1,828 million (2003 – $1,407 million).

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

(3) Comprises precious metal, commodity and equity-linked derivative contracts other than embedded equity-linked contracts.

NOTE 21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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. These amounts exclude fair value of $266 million (2003 –$82 million) relating to exchange-traded instruments as they are subject to daily margining and are deemed to have no credit risks. Fair value of $13 million (2003 – $10 million) relating to certain warrants and loan commitments that meet the definition of derivatives for financial reporting are also excluded. During 2004 and 2003, 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

	Risk rating (1)					Counterparty type (2)			
As at October 31, 2004	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total
Gross positive replacement cost (3)	$ 21,233	$12,801	$ 3,417	$ 2,683	$ 40,134	$ 27,121	$ 4,172	$ 8,841	$ 40,134
Impact of master netting agreements	(13,168)	(7,926)	(1,624)	(1,426)	(24,144)	(20,093)	–	(4,051)	(24,144)
Replacement cost (after netting agreements)	$ 8,065	$ 4,875	$ 1,793	$ 1,257	$ 15,990	$ 7,028	$ 4,172	$ 4,790	$ 15,990
Replacement cost (after netting agreements) – 2003	$ 5,696	$ 5,330	$ 1,463	$ 996	$ 13,485	$ 6,298	$ 3,279	$ 3,908	$ 13,485

(1) Our internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings.

(2) Counterparty type is defined in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.

(3) Represents the total current replacement cost of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements.

Derivative-related credit risk

	2004			2003		
	Replacement	Credit equivalent	Risk-adjusted	Replacement	Credit equivalent	Risk-adjusted

	cost (1)	amount (2)	balance (3)	cost (1)	amount (2)	balance (3)
Interest rate contracts						
Forward rate agreements	**$ 13**	**$ 16**	**$ 4**	$ 51	$ 68	$ 19
Swaps	**15,809**	**21,694**	**4,779**	17,138	22,682	5,258
Options purchased	**516**	**684**	**231**	753	976	346
	16,338	**22,394**	**5,014**	17,942	23,726	5,623
Foreign exchange contracts						
Forward contracts	**10,788**	**16,216**	**4,377**	10,201	15,148	4,137
Swaps	**8,323**	**16,829**	**3,483**	5,559	11,105	2,428
Options purchased	**2,020**	**3,512**	**905**	1,220	2,052	527
	21,131	**36,557**	**8,765**	16,980	28,305	7,092
Credit derivatives (4)	**791**	**3,894**	**1,819**	713	2,343	744
Other contracts (5)	**1,874**	**3,643**	**1,346**	1,052	1,949	633
Derivatives before master netting agreements	**40,134**	**66,488**	**16,944**	36,687	56,323	14,092
Impact of master netting agreements	**(24,144)**	**(32,534)**	**(8,205)**	(23,202)	(29,671)	(7,772)
Total derivatives after master netting agreements	**$ 15,990**	**$ 33,954**	**$ 8,739**	$ 13,485	$ 26,652	$ 6,320

(1) Represents the total current replacement cost of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements.

(2) 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).

(3) Using guidelines issued by OSFI.

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

(5) 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.

	2004								
	Canada	%	United States	%	Europe	%	Other Inter-national	%	Total
On-balance sheet assets (1)	**$174,191**	**76%**	**$30,730**	**13%**	**$20,259**	**9%**	**$ 4,053**	**2%**	**$229,233**
Off-balance sheet credit instruments (2)									
Committed and uncommitted (3)	**$ 54,979**	**41%**	**$49,099**	**36%**	**$21,850**	**16%**	**$ 9,638**	**7%**	**$135,566**
Other	**25,503**	**55**	**13,597**	**30**	**7,013**	**15**	**177**	**–**	**46,290**
Derivatives before master netting agreement (4)	**9,968**	**25**	**9,951**	**25**	**18,324**	**45**	**1,891**	**5**	**40,134**
	$ 90,450	**41%**	**$72,647**	**33%**	**$47,187**	**21%**	**$11,706**	**5%**	**$221,990**

[Additional columns below]

[Continued from above table, first column(s) repeated]

	2003								
	Canada	%	United States	%	Europe	%	Other Inter-national	%	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)	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

(1) Includes assets purchased under reverse repurchase agreements, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 41% (2003 – 38%) and British Columbia at 10% (2003 – 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 37% (2003 – 39%), government of 13% (2003 – 16%), mining and energy of 11% (2003 – 12%), transportation of 4% (2003 – 6%), wholesale of 4% (2003 – 4%) and manufacturing of 3% (2003 – 3%).

(4) The largest concentration by counterparty type of this credit risk exposure is with banks at 66% (2003 – 66%).

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 represent point in time estimates only and 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

	2004			2003		
	Book value	**Estimated fair value**	**Difference**	**Book value**	**Estimated fair value**	**Difference**
Financial assets						
Cash and deposits with banks	**$ 9,978**	**$ 9,978**	**$ –**	$ 6,013	$ 6,013	$ –
Securities	**128,946**	**129,307**	**361**	128,931	129,159	228
Assets purchased under reverse repurchase agreements	**34,862**	**34,862**	**–**	36,289	36,289	–
Loans (net of allowance for loan losses)	**186,543**	**188,062**	**1,519**	170,394	172,259	1,865
Other assets	**61,177**	**61,512**	**335**	53,628	53,931	303
Financial liabilities						
Deposits	**270,959**	**271,979**	**(1,020)**	259,145	260,536	(1,391)
Other liabilities	**76,122**	**76,140**	**(18)**	63,925	64,112	(187)
Subordinated debentures	**8,116**	**8,453**	**(337)**	6,243	6,587	(344)

NOTE 23 ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Derivatives

	2004				2003	
	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	**$ 30**	**$ 24**	**$ 11**	**$ 10**	$ 47	$ 42
Swaps	**15,489**	**15,222**	**14,689**	**14,582**	16,136	15,934
Options purchased	**706**	**–**	**523**	**–**	758	–
Options written	**–**	**735**	**–**	**570**	–	773
	16,225	**15,981**	**15,223**	**15,162**	16,941	16,749
Foreign exchange contracts						
Forward contracts	**9,074**	**9,498**	**10,448**	**11,159**	9,965	10,540
Cross currency swaps	**817**	**831**	**1,241**	**1,177**	731	624
Cross currency interest rate swaps	**4,852**	**4,091**	**6,635**	**6,243**	4,553	3,634
Options purchased	**1,461**	**–**	**1,985**	**–**	1,200	–
Options written	**–**	**1,428**	**–**	**1,750**	–	1,309
	16,204	**15,848**	**20,309**	**20,329**	16,449	16,107
Credit derivatives (2)	**701**	**462**	**787**	**607**	711	374
Other contracts (3)	**1,500**	**5,069**	**2,098**	**5,840**	1,103	4,332
	$34,630	**$37,360**	**38,417**	**41,938**	35,204	37,562
Held or issued for other than trading purposes						
Interest rate contracts						
Forward rate agreements			**2**	**17**	4	20
Swaps			**1,120**	**783**	1,003	847
Options written			**–**	**5**	–	–
			1,122	**805**	1,007	867
Foreign exchange contracts						
Forward contracts			**340**	**278**	236	78
Cross currency swaps			**–**	**59**	–	–
Cross currency interest rate swaps			**447**	**212**	275	99
Options purchased			**35**	**–**	20	–
			822	**549**	531	177
Credit derivatives (2)			**4**	**13**	2	22
Other contracts (3)			**48**	**92**	35	–
			1,996	**1,459**	1,575	1,066
Total gross fair values before netting			**40,413**	**43,397**	36,779	38,628
Impact of master netting agreements						
With intent to settle net or simultaneously (4)			**(817)**	**(817)**	(388)	(388)
Without intent to settle net or simultaneously (5)			**(23,327)**	**(23,327)**	(22,814)	(22,814)
Total			**$ 16,269**	**$ 19,253**	$ 13,577	$ 15,426

(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. Certain warrants and loan commitments that meet the definition of derivatives are also included.

(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, with the exception of amounts relating to derivative financial instruments held or issued for other than trading purposes.

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 and deposits with banks and Assets purchased under reverse repurchase agreements are assumed to approximate carrying value.

NOTE 24 BUSINESS REALIGNMENT CHARGES

On September 9, 2004, the Board of Directors approved a realignment of our organizational structure effective November 1, 2004. The objectives of the business realignment are to accelerate revenue growth, reduce costs and to streamline and improve the efficiency of our operations in order to better serve our clients. A key aspect of the realignment involves reorganizing our existing five segments into the following three, effective November 1, 2004:

- a Canadian personal and business segment, which combines our Canadian banking, investments and global insurance businesses, including Canadian, U.S. and international insurance operations;
- a U.S. and international segment, which includes banking and investments in the U.S., banking and brokerage in the Caribbean, and Global Private Banking internationally; and
- a global capital markets segment that includes corporate banking, which serves corporate and larger commercial clients.

During the fourth quarter, we began executing the other key initiatives of the business realignment, which comprise staff reductions and reducing occupancy costs. We expect the majority of these realignment initiatives to be completed during fiscal 2005 although certain lease obligations extend beyond that time.

Business realignment charges

	Employee-related charges	Premises-related charges	Other charges	Total charges
Realignment charges	$ 166	$ 13	$ 13	$ 192
Cash payments	–	–	–	–
Balance at October 31, 2004	$ 166	$ 13	$ 13	$ 192

At October 31, 2004, we recorded aggregate pre-tax business realignment charges of $192 million, of which $166 million relates to severance costs for 1,660 employee positions. The distribution of the employee positions across the segments is as follows: Banking – 1,030; Investments – 88; Insurance – 145; Capital Markets – 113; Global Services – 10; Other – 274. Geographically, 1,120 positions relate to Canada, 477 to the U.S. and 63 Other International. Approximately 40 employees were notified by October 31, 2004.

We are in the process of closing 38 of RBC Mortgage Company's (RBC Mortgage) 213 branches in the United States. In addition, in January 2005, the Chicago headquarters of RBC Mortgage will be closed and the operations transferred to our Houston office. We have included in our business realignment charges the fair value of the remaining future lease obligations, net of anticipated sublease revenues, for the premises that we have vacated but for which we remain the lessee. We have also expensed the lease cancellation payments for those locations for which we have legally extinguished our lease obligation. The carrying value of redundant assets in the closed premises has been included in premises-related costs. An additional 9 RBC Mortgage branches and 10 of RBC Centura Banks' 275 branches are scheduled to be closed in fiscal 2005. The premises-related costs associated with these closures will be recorded in fiscal 2005.

We engaged a professional services firm to provide us with strategic and organizational advice with respect to the business realignment initiatives. A charge of $13 million for these services is recorded in Other charges in the above table.

At October 31, 2004, business realignment charges to be paid in future periods were $192 million and are recorded in Other liabilities on the Consolidated balance sheet. The total business realignment charges for each segment are disclosed in Note 3. As at October 31, 2004, the premises-related costs and the other costs pertain to the RBC Banking and Other segments, 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 Handbook Section 3860, *Financial Instruments – Disclosure and Presentation.* On- and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing date or maturity date. Effective interest rates have been disclosed where applicable. The effective rates shown represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for floating-rate instruments or instruments carried at fair value.

The table below does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates. We incorporate these assumptions in the management of interest rate risk exposure. These assumptions include expected repricing of trading instruments and certain loans and deposits. Taking into account these assumptions on the consolidated contractual repricing and maturity schedule at October 31, 2004, would result in a change in the under-one-year gap from $(58.3) billion to $(19.1) billion (2003 – $(59.1) billion to $(29.0) 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-rate-sensitive	Total
Assets								
Cash and deposits with banks	$ –	$ 8,080	$ 120	$ 14	$ 24	$ 540	$ 1,200	$ 9,978
Effective interest rate		2.76%	2.83%	2.08%	3.76%	4.07%		
Securities								
Trading account	–	14,298	3,409	4,940	16,747	17,540	32,388	89,322
Effective interest rate		2.50%	2.54%	2.98%	3.61%	4.55%		
Investment account and loan substitute	–	15,738	1,403	3,337	11,475	6,013	1,658	39,624
Effective interest rate		2.37%	2.96%	3.23%	4.06%	4.51%		
Assets purchased under reverse repurchase agreements	–	34,315	547	–	–	–	–	34,862
Effective interest rate		2.38%	2.56%	–	–	–		
Loans (net of allowance for loan losses)	70,256	27,471	5,817	8,291	68,485	6,608	(385)	186,543
Effective interest rate		4.34%	4.98%	5.31%	5.33%	5.71%		
Other assets	–	–	–	–	–	–	68,867	68,867
	70,256	99,902	11,296	16,582	96,731	30,701	103,728	429,196
Liabilities								
Deposits	103,850	90,648	14,580	21,529	33,248	4,446	2,658	270,959
Effective interest rate		1.91%	2.29%	2.18%	3.22%	3.27%		
Obligations related to securities sold short	–	2,340	120	385	8,693	7,665	5,802	25,005
Effective interest rate		2.65%	2.69%	2.92%	3.63	4.66		
Obligations related to assets sold under repurchase agreements	–	21,110	489	106	–	–	–	21,705
Effective interest rate		2.50%	2.82%	2.93%	–	–		
Other liabilities	–	–	–	–	–	–	82,798	82,798
Subordinated debentures	–	1,111	–	700	3,586	2,719	–	8,116
Effective interest rate		2.60%	–	6.40%	5.51%	6.45%		
Non-controlling interest in subsidiaries	–	–	–	–	–	2,300	109	2,409
Effective interest rate		–	–	–	–	6.68%		
Shareholders' equity	–	–	–	–	550	282	17,372	18,204
Effective interest rate		–	–	–	5.40%	5.50%		
	103,850	115,209	15,189	22,720	46,077	17,412	108,739	429,196
On-balance sheet gap	(33,594)	(15,307)	(3,893)	(6,138)	50,654	13,289	(5,011)	–
Off-balance sheet financial instruments (1)								
Derivatives used for asset liability management purposes								
Pay side instruments	–	(54,141)	(388)	(3,011)	(28,834)	(7,659)	–	(94,033)
Effective interest rate		3.98%	(.54)%	3.82%	4.36%	5.11%		
Receive side instruments	–	47,132	1,937	11,455	24,090	9,419	–	94,033
Effective interest rate		4.24%	1.63%	3.28%	4.37%	5.62%		
Derivatives used for trading purposes	–	9,272	(10,207)	(1,445)	11,890	4,502	(14,012)	–

Effective interest rate		2.61%	2.74%	2.92%	3.60%	4.71%		
	–	2,263	(8,658)	6,999	7,146	6,262	(14,012)	–
Total gap	$ (33,594)	$ (13,044)	$(12,551)	$ 861	$ 57,800	$19,551	$ (19,023)	–
Canadian dollar	(21,350)	(22,833)	1,731	247	49,983	3,568	(11,328)	18
Foreign currency	(12,244)	9,789	(14,282)	614	7,817	15,983	(7,695)	(18)
Total gap	$ (33,594)	$ (13,044)	$(12,551)	$ 861	$ 57,800	$19,551	$ (19,023)	$ –
Canadian dollar – 2003	(24,709)	(7,433)	(1,860)	4,025	37,851	3,868	(11,705)	37
Foreign currency – 2003	(26,898)	(2,186)	(794)	763	11,109	22,805	(4,836)	(37)
Total gap – 2003	$ (51,607)	$ (9,619)	$ (2,654)	$ 4,788	$ 48,960	$26,673	$ (16,541)	$ –

(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 (SEC), material differences between Canadian and United States GAAP are described below.

Condensed consolidated balance sheets

	2004			2003		
	Canadian GAAP	**Differences**	**U.S. GAAP**	**Canadian GAAP**	**Differences**	**U.S. GAAP**
Assets						
Cash and due from banks	**$ 4,758**	**$ –**	**$ 4,758**	$ 2,887	$ –	$ 2,887
Interest-bearing deposits with banks	**5,220**	**16**	**5,236**	3,126	(34)	3,092
Securities						
Trading account	**89,322**	**(1,687)**	**87,635**	87,532	(813)	86,719
Investment account	**38,923**	**(38,923)**	**–**	41,074	(41,074)	–
Loan substitute	**701**	**(701)**	**–**	325	(325)	–
Available for sale	**–**	**39,861**	**39,861**	–	41,619	41,619
Assets purchased under reverse repurchase agreements	**34,862**	**–**	**34,862**	36,289	–	36,289
Loans (net of allowance for loan losses)	**186,543**	**967**	**187,510**	170,394	98	170,492
Other						
Customers' liability under acceptances	**6,184**	**–**	**6,184**	5,943	–	5,943
Derivative-related amounts	**38,891**	**1,190**	**40,081**	35,612	1,028	36,640
Premises and equipment	**1,756**	**(25)**	**1,731**	1,670	(15)	1,655
Goodwill	**4,369**	**47**	**4,416**	4,587	46	4,633
Other intangibles	**523**	**–**	**523**	580	–	580
Reinsurance recoverables	**–**	**1,701**	**1,701**	–	3,321	3,321
Separate account assets	**–**	**120**	**120**	–	224	224
Other assets	**17,144**	**15,920**	**33,064**	13,014	5,483	18,497
	$ 429,196	**$ 18,486**	**$447,682**	$ 403,033	$ 9,558	$412,591
Liabilities and shareholders' equity						
Deposits	**$ 270,959**	**$ 616**	**$271,575**	$ 259,145	$ 1,373	$260,518
Other						
Acceptances	**6,184**	**–**	**6,184**	5,943	–	5,943
Obligations related to securities sold short	**25,005**	**(1,190)**	**23,815**	22,855	(112)	22,743
Obligations related to assets sold under repurchase agreements	**21,705**	**–**	**21,705**	23,735	–	23,735
Derivative-related amounts	**42,201**	**669**	**42,870**	37,775	652	38,427
Insurance claims and policy benefit liabilities	**6,838**	**2,514**	**9,352**	5,256	3,374	8,630
Separate account liabilities	**–**	**120**	**120**	–	224	224
Other liabilities	**27,575**	**16,065**	**43,640**	21,318	4,881	26,199
Subordinated debentures	**8,116**	**406**	**8,522**	6,243	338	6,581
Non-controlling interest in subsidiaries	**2,409**	**(885)**	**1,524**	2,388	(914)	1,474
Shareholders' equity	**18,204**	**171**	**18,375**	18,375	(258)	18,117
	$ 429,196	**$ 18,486**	**$447,682**	$ 403,033	$ 9,558	$412,591

NOTE 26 RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

Condensed consolidated statements of income

	2004	2003	2002
Net income, Canadian GAAP	**$2,817**	$3,005	$2,762
Differences:			
Net interest income			
Derivative instruments and hedging activities (1)	**10**	(1)	(65)
Variable interest entities (2)	**(19)**	(15)	–
Joint ventures (3)	**–**	(2)	(1)
Non-interest income			
Insurance accounting (4)	**(603)**	(311)	(133)
Derivative instruments and hedging activities (1)	**(1)**	29	156
Reclassification of securities (5)	**7**	(12)	–
Variable interest entities (2)	**–**	1	–
Limited partnerships (6)	**(11)**	–	–
Joint ventures (3)	**(146)**	(147)	(150)
Other (9)	**(8)**	(13)	(2)
Provision for credit losses			
Reclassification of securities (5)	**(1)**	6	–
Insurance policyholder benefits, claims and acquisition expense			
Insurance accounting (4)	**615**	292	205
Non-interest expense			
Stock appreciation rights (7)	**(3)**	16	17
Insurance accounting (4)	**15**	36	38
Joint ventures (3)	**114**	122	122
Variable interest entities (2)	**(35)**	–	–
Other (9)	**(2)**	(1)	(1)
Income taxes and net change in income taxes due to the above items (8)	**38**	17	(50)
Non-controlling interest in net income of subsidiaries Variable interest entities (2)	**52**	14	–
Net income, U.S. GAAP	**$2,839**	$3,036	$2,898
Earnings per share (10)	**$ 4.31**	$ 4.47	$ 4.16
Diluted earnings per share (10)	**$ 4.25**	$ 4.42	$ 4.12

Significant statement of income reconciling items

(1) *Derivative instruments and hedging activities*

Under U.S. GAAP, all derivatives are recorded on the Consolidated balance sheet at fair value, including certain derivatives embedded within hybrid instruments. For derivatives that do not qualify for hedge accounting, changes in their fair value are recorded in Non-interest income. For derivatives that are designated and qualify as Cash flow hedges, changes in fair value related to the effective portion of the hedge are recorded in Accumulated other comprehensive income within Shareholders' equity, and will be subsequently recognized in Net interest income in the same period when the cash flow of the hedged item affects earnings. For derivatives that are designated and qualify as Fair value hedges, 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 change in fair value of the hedged item is generally offset by changes in the fair value of the derivative.

Under Canadian GAAP, derivatives embedded within hybrid instruments are generally not separately accounted for except for those related to equity-linked deposit contracts as allowed in Accounting Guideline 17, *Equity-Linked Deposit Contracts.* For derivatives that do not qualify for hedge accounting, changes in their fair value are recorded in Non-interest income. Non-trading derivatives where hedge accounting has not been applied upon 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 interest income. Where derivatives have been designated and qualified as effective hedges, they are accounted for on an accrual basis with gains or losses deferred and recognized over the life of the hedged assets or liabilities as adjustments to Net interest income. Recording derivatives and hedging activities in accordance with U.S. GAAP would increase Net income by $9 million for the year ended October 31, 2004. It would also increase Loans by $43 million, Other assets by $910 million, Deposits by $158 million, Other liabilities by $464 million and Subordinated debentures by $406 million, and would decrease Interest-bearing deposits with banks by $33 million, and Shareholders' equity by $108 million as at October 31, 2004.

(2) *Variable interest entities*

Pursuant to FIN 46R, under U.S. GAAP we consolidate variable interest entities (VIEs), 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 Interest-bearing deposits with banks by $49 million, Loans by $924 million, Deposits by $266 million, Other liabilities by $1,012 million, and Other assets by $44 million, and would decrease Securities by $624 million and Non-controlling interest in subsidiaries by $885 million as at October 31, 2004. However, it would have no net impact on Net income for the year ended October 31, 2004.

(3) *Joint ventures*

Investments in joint ventures are accounted for using the equity method under U.S. GAAP and proportionally consolidated under Canadian GAAP. Accounting for joint ventures under U.S. GAAP would decrease Other assets and Other liabilities by $80 million as at October 31, 2004, but would have no impact on Net income.

(4) *Insurance accounting*

Fixed income investments: Under U.S. GAAP, fixed income investments are included in Available for sale securities and are carried at estimated fair value. Unrealized gains and losses, net of income taxes, are reported in Accumulated other comprehensive income in Shareholders' equity. Realized gains and losses are included in Non-interest income when realized. Under Canadian GAAP, fixed income investments are classified as Investment account securities and carried at amortized cost. Realized gains and losses on disposal of fixed income investments that support life insurance liabilities are deferred and amortized to Non-interest income over the remaining term to maturity of the investments sold to a maximum period of 20 years.

Equity investments: Under U.S. GAAP, equity securities are classified as Available for sale securities and are carried at estimated fair value. Unrealized gains and losses, net of income taxes, are included in Accumulated other comprehensive income. Realized gains and losses are included in Non-interest income when realized. Under Canadian GAAP, equity securities included in the Investment account securities are initially recorded at cost. The carrying value of the equity securities is adjusted quarterly by 5% of the difference between market value and previously adjusted carrying cost. Realized gains and losses are deferred and recognized as Non-interest income at the quarterly rate of 5% of unamortized deferred gains and losses.

Insurance claims and policy benefit liabilities: Under U.S. GAAP, liabilities for insurance contracts, except universal life and investment-type contracts, are determined using the net level premium method, which includes assumptions for mortality, morbidity, policy lapses, surrenders, investment yields, policy dividends and direct 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, liabilities represent policyholder account balances and include a net level premium reserve for some contracts. The account balances represent an accumulation of gross deposits received plus credited interest less withdrawals, expenses and mortality charges. Underlying reserve assumptions of these contracts are subject to review annually. Under Canadian GAAP, liabilities for insurance contracts are determined using the Canadian Asset Liability Method, which incorporates assumptions for mortality, morbidity, policy lapses, surrenders, investment yields, policy dividends and maintenance expenses. To recognize the uncertainty in the assumptions underlying the calculation of the liabilities, a margin (provision for adverse deviations) is added to each assumption. These assumptions are updated to reflect the results of actual experience and market conditions.

Insurance revenue: Under U.S. GAAP, amounts received for universal life and other investment-type contracts are not included as revenue, but are reported as deposits to policyholders' account balances in Insurance claims and policy benefit liabilities. Revenues from these contracts are limited to amounts assessed against policyholders' account balances for mortality, policy administration and surrender charges, and are included in Non-interest income when earned. Payments upon maturity or surrender are reflected as reductions to the Insurance claims and policy benefit liabilities. Under Canadian GAAP, premiums for universal life and other investment-type contracts are recorded as Non-interest income, and a liability for future policy benefits is established as a charge to Insurance policyholder benefits, claims and acquisition expense.

Policy acquisition costs: Under U.S. GAAP, acquisition costs are deferred in Other assets. Amortization method of the acquisition costs is dependent on the product to which the costs relate. For long-duration contracts, they are amortized in proportion to premium revenue. For universal life and investment-type contracts, amortization is based on a constant percentage of estimated gross profits. Under Canadian GAAP, the costs of acquiring new life insurance and annuity business are implicitly recognized as a reduction in Insurance claims and policy benefit liabilities.

Reinsurance: Under U.S. GAAP, Reinsurance recoverables are recorded as an asset on the Consolidated balance sheet. Under Canadian GAAP, Reinsurance recoverables of life insurance business related to the risks ceded to other insurance or reinsurance companies are recorded as an offset to Insurance claims and policy benefit liabilities.

Separate accounts: Under U.S. GAAP, separate accounts are included in the consolidated financial statements. Under Canadian GAAP, assets and liabilities of separate accounts (known as segregated funds in Canada) are not included in the Consolidated balance sheet.

The application of U.S. GAAP for these reconciling items would increase Net income by $18 million for the year ended October 31, 2004. It would also increase Other assets by $2,048 million, Other liabilities by $1,949 million and Shareholders' equity by $99 million as at October 31, 2004.

(5) *Reclassification of securities*

For U.S. GAAP, securities are classified as Trading account or Available for sale, and are carried on the Consolidated balance sheet at their estimated fair value. The net unrealized gain (loss) on Available for sale securities, net of related income taxes, is reported as Accumulated 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 Non-interest 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. For 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 increase Net income by $5 million for the year ended October 31, 2004. It would increase Securities by $374 million, Shareholders' equity by $234 million and decrease Other assets by $140 million as at October 31, 2004.

(6) *Limited partnerships*

Under U.S. GAAP, the equity method is used to account for investments in limited partnerships that are more than 3–5% of the total ownership interest. Under Canadian GAAP, we use the equity method to account for investments in limited partnerships if we have the ability to exercise significant influence, generally indicated by an ownership interest of 20% or more. Using a lower threshold in applying the equity method under U.S. GAAP would reduce Net income by $7 million for the year ended October 31, 2004. It would also increase Other assets by $95 million and would decrease Securities by $102 million and Shareholders' equity by $7 million as at October 31, 2004.

NOTE 26 RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

(7) *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. 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 reduce Net income by $2 million for the year ended October 31, 2004. It would also increase Shareholders' equity by $17 million, and would decrease Other assets by $10 million and Other liabilities by $27 million as at October 31, 2004.

(8) *Income taxes*

In addition to the tax impact of the differences outlined under the significant statement of income reconciling items, 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 changed has been substantively enacted.

(9) *Other*

Other differences between U.S. and Canadian GAAP relate to the right of offset, adoption of SEC Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments* (SAB 105), and other minor items. The net of these items would decrease Net income by $1 million for the year ended October 31, 2004, and would increase Securities by $152 million, Deposits by $192 million, Shareholders' equity by $3 million, Other assets by $121 million and Other liabilities by $78 million as at October 31, 2004.

(10) *Two-class method of calculating earnings per share (EITF 03-6)*

In 2004, we adopted EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share,* under U.S. GAAP. This EITF requires a change in the calculation of earnings per share to give effect to certain securities or other instruments or contracts that entitle their holders to participate in undistributed earnings of the reporting entity when such entitlement is nondiscretionary and objectively determinable. This EITF is effective for fiscal periods beginning after March 31, 2004, and requires retroactive adjustment to earnings per share presented for prior periods. EITF 03-6 reduced earnings per share for all years presented by less than one cent except for the year ended October 31, 2004, where the reduction was approximately one cent. Basic and diluted earnings per share under U.S. GAAP for 2003 are restated to reflect a reduction of one cent.

Significant balance sheet reconciling items

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 Accumulated other comprehensive income. Recording this additional pension obligation in accordance with U.S. GAAP would increase Other assets by $35 million and Other liabilities by $102 million, and would reduce Shareholders' equity by $67 million as at October 31, 2004.

Trade date accounting

Security transactions for U.S. GAAP are recorded using trade date accounting, which results in securities being recorded on the trade date 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, which results in securities being recorded on settlement date 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 $8,567 million and Other liabilities by $7,317 million, and would decrease Securities by $1,250 million as at October 31, 2004.

Non-cash collateral

Under U.S. GAAP, non-cash collateral received in securities lending transactions is recorded on the Consolidated balance sheet as an asset and a corresponding obligation to return it as a liability, if we have the ability to sell or repledge it. Under Canadian GAAP, non-cash collateral received in securities lending transactions is not recognized in the Consolidated balance sheet. Accounting for non-cash collateral under U.S. GAAP would increase Other assets and Other liabilities by $7,363 million as at October 31, 2004.

NOTE 27 SUBSEQUENT EVENTS

The following significant event occurred subsequent to October 31, 2004, and prior to the issuance of our 2004 consolidated financial statements.

On November 23, 2004, we agreed to sell Liberty Insurance Services Corp. (LIS) to IBM. The sale, which is expected to close by December 31, 2004, subject to the satisfaction of customary conditions including the receipt of regulatory approvals, will result in the transfer of approximately 700 LIS employees to IBM. The total assets and liabilities of LIS are immaterial to RBC Insurance and the sale is expected to result in a nominal gain. In connection with the sale agreement, we entered into a long-term services agreement with IBM whereby it will perform

certain processing and management functions for the U.S. operations of RBC Insurance.

QUARTERLY HIGHLIGHTS

(C$ millions, except per share and percentage amounts)	2004 Q4	Q3	Q2	Q1
Consolidated statement of income				
Net interest income	$ 1,723	$ 1,713	$ 1,601	$ 1,656
Non-interest income	2,919	2,859	2,940	2,710
Provision for credit losses	(97)	(125)	(149)	25
Insurance policyholder benefits, claims and acquisition expense	(589)	(575)	(508)	(452)
Non-interest expense	(2,812)	(2,743)	(2,747)	(2,807)
Business realignment charges	(192)	–	–	–
Goodwill impairment	(130)	–	–	–
Income taxes	(255)	(340)	(337)	(300)
Non-controlling interest	(49)	(43)	(37)	(42)
Net income	$ 518	$ 746	$ 763	$ 790
Earnings per share (1)				
Basic	$ .79	$ 1.14	$ 1.16	$ 1.20
Diluted	.78	1.12	1.14	1.18
Performance ratios				
Return on common equity	11.3%	16.1%	16.8%	17.8%
Return on assets	.47	.67	.71	.75
Return on assets after preferred dividends	.46	.66	.70	.74
Net interest margin (2)	1.58	1.57	1.51	1.57
Non-interest income as a % of total revenues	62.9	62.5	64.7	62.1
Consolidated balance sheet				
Assets				
Cash, deposits with banks and securities	$ 138,924	$ 148,117	$ 143,051	$ 147,422
Assets purchased under reverse repurchase agreements	34,862	37,988	37,187	32,612
Residential mortgage loans	84,170	82,209	80,199	78,575
Personal loans	36,848	35,843	34,503	32,852
Credit card loans	6,456	6,307	5,917	5,403
Business and government loans	60,713	61,108	61,367	58,675
Allowance for loan losses	(1,644)	(1,693)	(1,739)	(1,846)
Other assets	68,867	58,801	65,205	64,063
	$ 429,196	$ 428,680	$ 425,690	$ 417,756
Liabilities and shareholders' equity				
Personal deposits	$ 113,009	$ 114,622	$ 111,758	$ 109,116
Business, government and bank deposits	157,950	162,940	159,827	156,057
Other liabilities	129,508	121,238	124,057	124,076
Subordinated debentures	8,116	8,440	8,423	7,639
Non-controlling interest in subsidiaries	2,409	2,416	2,469	2,397
Total equity	18,204	19,024	19,156	18,471
	$ 429,196	$ 428,680	$ 425,690	$ 417,756
Selected average balances and off-balance sheet data				
Averages (3)				
Assets	$ 434,100	$ 433,800	$ 429,900	$ 419,200
Loans, acceptances and reverse repurchase agreements	233,051	229,663	218,890	215,965
Deposits	272,980	272,019	266,591	261,180
Common equity	17,880	18,211	18,139	17,386
Total equity	18,712	19,043	18,970	18,217
Assets under administration	1,610,200	1,612,400	1,620,200	1,575,700
Assets under management	93,500	95,600	95,200	92,300
Provision for credit losses				
Specific	$ 122	$ 125	$ 149	$ 125
General provision				
General allocated	(11)	18	(24)	(130)
General unallocated	(14)	(18)	24	(20)
Total general provision	(25)	–	–	(150)
Total	$ 97	$ 125	$ 149	$ (25)
Net impaired loans as a % of loans, acceptances and reverse repurchase agreements	.34%	.36%	.44%	.48%
Capital ratios (4)				
Common equity/risk-adjusted assets	9.5%	9.9%	10.2%	10.1%
Tier 1	8.9	9.1	9.3	9.3
Total	12.4	12.7	12.9	12.9

Common share information				
Shares outstanding (in thousands)				
End of period	**644,748**	**649,066**	**653,280**	**655,963**
Average basic	**642,117**	**646,019**	**648,676**	**650,044**
Average diluted	**650,805**	**654,275**	**657,520**	**658,738**
Dividends per share	**$ .52**	**$ .52**	**$ .52**	**$ .46**
Book value per share	**27.15**	**28.23**	**28.23**	**27.18**
Common share price – High (5)	**63.77**	**61.88**	**65.64**	**65.90**
Low (5)	**58.94**	**58.04**	**60.56**	**60.26**
Close	**63.40**	**61.50**	**60.95**	**63.19**
Dividend yield	**3.4%**	**3.5%**	**3.3%**	**2.9%**
Dividend payout ratio	**66%**	**46%**	**45%**	**38%**

[Additional columns below]

[Continued from above table, first column(s) repeated]

	2003			
(C$ millions, except per share and percentage amounts)	**Q4**	**Q3**	**Q2**	**Q1**
Consolidated statement of income				
Net interest income	$ 1,612	$ 1,654	$ 1,628	$ 1,702
Non-interest income	2,748	2,794	2,537	2,743
Provision for credit losses	(140)	(170)	(211)	(200)
Insurance policyholder benefits, claims and acquisition expense	(513)	(424)	(351)	(408)
Non-interest expense	(2,624)	(2,615)	(2,560)	(2,610)
Business realignment charges	–	–	–	–
Goodwill impairment	–	–	–	–
Income taxes	(300)	(425)	(315)	(420)
Non-controlling interest	(37)	(31)	(31)	(28)
Net income	$ 746	$ 783	$ 697	$ 779
Earnings per share (1)				
Basic	$ 1.12	$ 1.17	$ 1.01	$ 1.14
Diluted	1.11	1.16	1.00	1.12
Performance ratios				
Return on common equity	16.5%	17.5%	15.7%	17.1%
Return on assets	.74	.78	.72	.79
Return on assets after preferred dividends	.73	.77	.70	.76
Net interest margin (2)	1.60	1.65	1.69	1.72
Non-interest income as a % of total revenues	63.0	62.8	60.9	61.7
Consolidated balance sheet				
Assets				
Cash, deposits with banks and securities	$ 134,944	$ 129,032	$ 126,436	$ 120,744
Assets purchased under reverse repurchase agreements	36,289	43,371	38,879	39,396
Residential mortgage loans	78,817	77,199	74,429	73,415
Personal loans	32,186	31,444	30,857	30,525
Credit card loans	4,816	5,625	5,327	5,214
Business and government loans	56,630	57,411	57,656	59,866
Allowance for loan losses	(2,055)	(2,156)	(2,226)	(2,267)
Other assets	61,406	62,053	60,730	62,911
	$ 403,033	$ 403,979	$ 392,088	$ 389,804
Liabilities and shareholders' equity				
Personal deposits	$ 106,709	$ 106,776	$ 105,845	$ 105,293
Business, government and bank deposits	152,436	149,675	145,310	142,880
Other liabilities	116,882	120,187	113,907	114,340
Subordinated debentures	6,243	6,440	6,474	6,571
Non-controlling interest in subsidiaries	2,388	2,355	1,475	1,445
Total equity	18,375	18,546	19,077	19,275
	$ 403,033	$ 403,979	$ 392,088	$ 389,804
Selected average balances and off-balance sheet data				
Averages (3)				
Assets	$ 399,100	$ 397,000	$ 395,800	$ 393,600
Loans, acceptances and reverse repurchase agreements	217,239	214,414	216,274	220,271
Deposits	250,986	250,659	248,274	253,105
Common equity	17,623	17,506	17,667	17,500
Total equity	18,459	18,509	19,184	19,044
Assets under administration	1,483,900	1,444,000	1,368,200	1,434,200
Assets under management	88,900	89,200	88,700	91,600
Provision for credit losses				
Specific	$ 140	$ 170	$ 211	$ 200
General provision				

General allocated	7	(5)	2	2
General unallocated	(7)	5	(2)	(2)
Total general provision	–	–	–	–
Total	$ 140	$ 170	$ 211	$ 200
Net impaired loans as a % of loans, acceptances and reverse repurchase agreements	.46%	.48%	.59%	.67%
Capital ratios (4)				
Common equity/risk-adjusted assets	10.5%	10.4%	10.6%	10.6%
Tier 1	9.7	9.6	9.6	9.4
Total	12.8	12.7	12.8	12.7
Common share information				
Shares outstanding (in thousands)				
End of period	656,021	658,612	662,427	666,439
Average basic	656,952	660,810	664,634	666,006
Average diluted	663,841	667,543	671,398	673,400
Dividends per share	$ .46	$ .43	$ .43	$ .40
Book value per share	26.74	26.88	26.53	26.62
Common share price – High (5)	65.00	61.64	59.91	59.86
Low (5)	57.50	56.75	53.26	53.91
Close	63.48	58.90	59.80	53.30
Dividend yield	3.0%	2.9%	3.0%	2.8%
Dividend payout ratio	41%	37%	42%	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) Calculated using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information.

(5) Intraday high and low share prices.

EXHIBIT 4.1

Deloitte & Touche LLP
BCE Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: (416) 601-6150
Fax: (416) 601-6590
www.deloitte.ca

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the use of our reports dated December 20, 2004 on the consolidated balance sheets of Royal Bank of Canada as at October 31, 2004 and 2003 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, which appear in this Annual Report on Form 40-F.

"Deloitte & Touche LLP"

Independent Registered Chartered Accountants
Toronto, Ontario
December 20, 2004

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

We consent to the use of our reports dated November 19, 2002 on the consolidated statements of income, changes in shareholders' equity and cash flows of Royal Bank of Canada for the year ended October 31, 2002, prior to the assessment of the impact of subsequent significant accounting changes including changes in financial statement presentation as disclosed in Note 1, the presentation of segment information in Note 3, the change in the calculation of earnings per share in Note 20 (US GAAP) and other reclassifications to the 2002 consolidated financial statements which were audited by the successor independent registered chartered accountants which appear in this Annual Report on Form 40-F.

"Deloitte & Touche LLP"

Chartered Accountants
Toronto, Ontario
November 19, 2002

"PricewaterhouseCoopers LLP"

Chartered Accountants
Toronto, Ontario
November 19, 2002

Deloitte & Touche LLP
BCE Place
181 Bay Street
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Toronto ON M5J 2V1
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CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements of Royal Bank of Canada on Form S-8, File Nos. 333-8434, 333-12036, 333-12050, 333-13050, 333-13052, 333-13112, 333-13176, 333-13602, 333-13752, 333-14144, 333-110953 and 333-117922 and the Registration Statement of Royal Bank of Canada on Form F-9 File No. 333-109392, of our reports dated December 20, 2004 on the consolidated balance sheets of Royal Bank of Canada as at October 31, 2004 and 2003 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, which appear in Royal Bank of Canada's Annual Report on Form 40-F for the year ended October 31, 2004.

"Deloitte & Touche LLP"

Independent Registered Chartered Accountants
Toronto, Canada
December 20, 2004

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

We consent to the incorporation by reference in the Registration Statements of Royal Bank of Canada on Form S-8, File Nos. 333-8434, 333-12036, 333-12050, 333-13050, 333-13052, 333-13112, 333-13176, 333-13602, 333-13752, 333-14144, 333-110953 and 333-117922 and the Registration Statement of Royal Bank of Canada on Form F-9 File No. 333-109392, of our reports dated November 19, 2002 on the consolidated statements of income, changes in shareholders' equity and cash flows of Royal Bank of Canada for the year ended October 31, 2002, prior to the assessment of the impact of subsequent significant accounting changes including changes in financial statement presentation disclosed in Note 1, the presentation of segment information in Note 3, the change in the calculation of earnings per share in Note 20 (US GAAP) and other reclassifications to the 2002 consolidated financial statements which were audited by the successor independent registered chartered accountants which appear in Royal Bank of Canada's Annual Report on Form 40-F for the year ended October 31, 2004.

"Deloitte & Touche LLP"

Chartered Accountants
Toronto, Canada
December 20, 2004

"PricewaterhouseCoopers LLP"

Chartered Accountants
Toronto, Canada
December 20, 2004

EXHIBIT 4.2

AUDITORS' REPORT

To the Shareholders of Royal Bank of Canada

We have audited the consolidated statements of income, changes in shareholders' equity and cash flows of Royal Bank of Canada for the year 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 results of the bank's operations and its cash flows for the year 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.

"Deloitte & Touche LLP"

Chartered Accountants
Toronto, November 19, 2002

"PricewaterhouseCoopers LLP"

Chartered Accountants

AUDITORS' REPORT

To the Shareholders of Royal Bank of Canada

We have audited the consolidated statements of income, changes in shareholders' equity and cash flows of Royal Bank of Canada for the year 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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In our opinion, these consolidated financial statements present fairly, in all material respects, the results of the bank's operations and its cash flows for the year ended October 31, 2002, in accordance with United States generally accepted accounting principles.

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

"Deloitte & Touche LLP"

Chartered Accountants
Toronto, November 19, 2002

"PricewaterhouseCoopers LLP"

Chartered Accountants

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 changes described in Notes 1,13 and 19 to the financial statements. Our reports to the shareholders dated December 20, 2004 are expressed in accordance with Canadian reporting standards, which do not require a reference to such a change in accounting principles in the auditors' reports when the change is properly accounted for and adequately disclosed in the financial statements.

"Deloitte & Touche LLP"

Chartered Accountants
Toronto, Ontario
December 20, 2004

EXHIBIT 7

AUDIT COMMITTEE

OCTOBER 14, 2004

POLICIES AND PROCEDURES

FOR THE PRE-APPROVAL OF SERVICES

TO BE PERFORMED BY 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 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 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 be performed by any other 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 pre-approve all engagements of the auditors by:

    a) the Bank; or

    b) any subsidiary.

4. The Audit Committee shall pre-approve engagements of any public accounting firm to provide audit, review or attest services to:

    a) the Bank; or

    b) any subsidiary.

5. 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.

6. "Subsidiary" has the meaning set forth in Rule 1-02(x) of the U.S. Securities and Exchange Commission's Regulation S-X. The Bank considers any entity that the Bank is required to consolidate under U.S. GAAP to be a "subsidiary".

7. 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) attest services required by statute or regulation; and

      iv) 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 traditionall *y* 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

8. 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 public accounting firm (including the auditors) 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.

9. 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.

10. 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 containing such a description.

11. 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

12. 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

13. 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.

14. Engagements will not be considered to be revolving in nature and may not operate from year-to-year.

15. All audit and non-audit services to be provided by the auditors and all audit, review or attest services to be provided by any public accounting firm shall be provided pursuant to an engagement letter that shall:

    a) be in writing and signed by the auditors or 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.

16. 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) with respect to engagements for the provision of services other than audit and audit-related services, 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

17. 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.

18. 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) if the provision of the services would be prohibited, as prescribed by paragraph 20 of these Policies and Procedures.

Other Non-Audit Services (Including Business Recovery Services)

19. The Audit Committee, and any member in the exercise of delegated power, shall consider the provision of other non-audit services (non-audit services other than audit-related services and tax services, and including business recovery services) by the auditors on an engagement-by-engagement basis.

Prohibited Services

20. The Audit Committee shall not pre-approve, and any member may not exercise delegated power to engage the auditors to provide, any services, including tax services or business recovery services that involve the auditors

    a) functioning in the role of management,

    b) auditing their own work,

    c) providing appraisal or valuation services or fairness opinions,

    d) serving in an advocacy role for the Bank,

    e) providing legal services, services that fall within the category of “expert” services that are prohibited by applicable law, or

    f) providing services that would otherwise compromise their independence under applicable regulatory guidance.

Timely Reporting to the Audit Committee

21. 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

22. 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

23. These Policies and Procedures are effective as and from October 14, 2004.

Disclosure

24. The Bank shall disclose these Policies and Procedures in its periodic filings, as required by applicable law.

Annual Review

25. 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 and 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 issuer as of, and for, the periods presented in this report;

4. The issuer'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 issuer 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 issuer, 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 issuer'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 issuer'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 issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer'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 issuer'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 issuer's internal control over financial reporting.

December 20, 2004.

"Gordon M. Nixon"

Gordon M. Nixon
President and Chief Executive Officer

I, Janice R. Fukakusa, Chief Financial Officer of Royal Bank of Canada, certify that:

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

2. Based on my knowledge, this 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 issuer as of, and for, the periods presented in this report;

4. The issuer'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 issuer 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 issuer, 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 issuer'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 issuer'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 issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of issuer'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 issuer'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 issuer's internal control over financial reporting.

December 20, 2004.

"Janice R. Fukakusa"

Janice R. Fukakusa
Chief Financial Officer

EXHIBIT 32

CERTIFICIATIONS

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, 2004 (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 20, 2004

"Gordon M. Nixon"

Name: Gordon M. Nixon
Title: President and 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, 2004 (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 20, 2004

“Janice R. Fukakusa”

Name: Janice R. Fukakusa
Title: Chief Financial Officer