

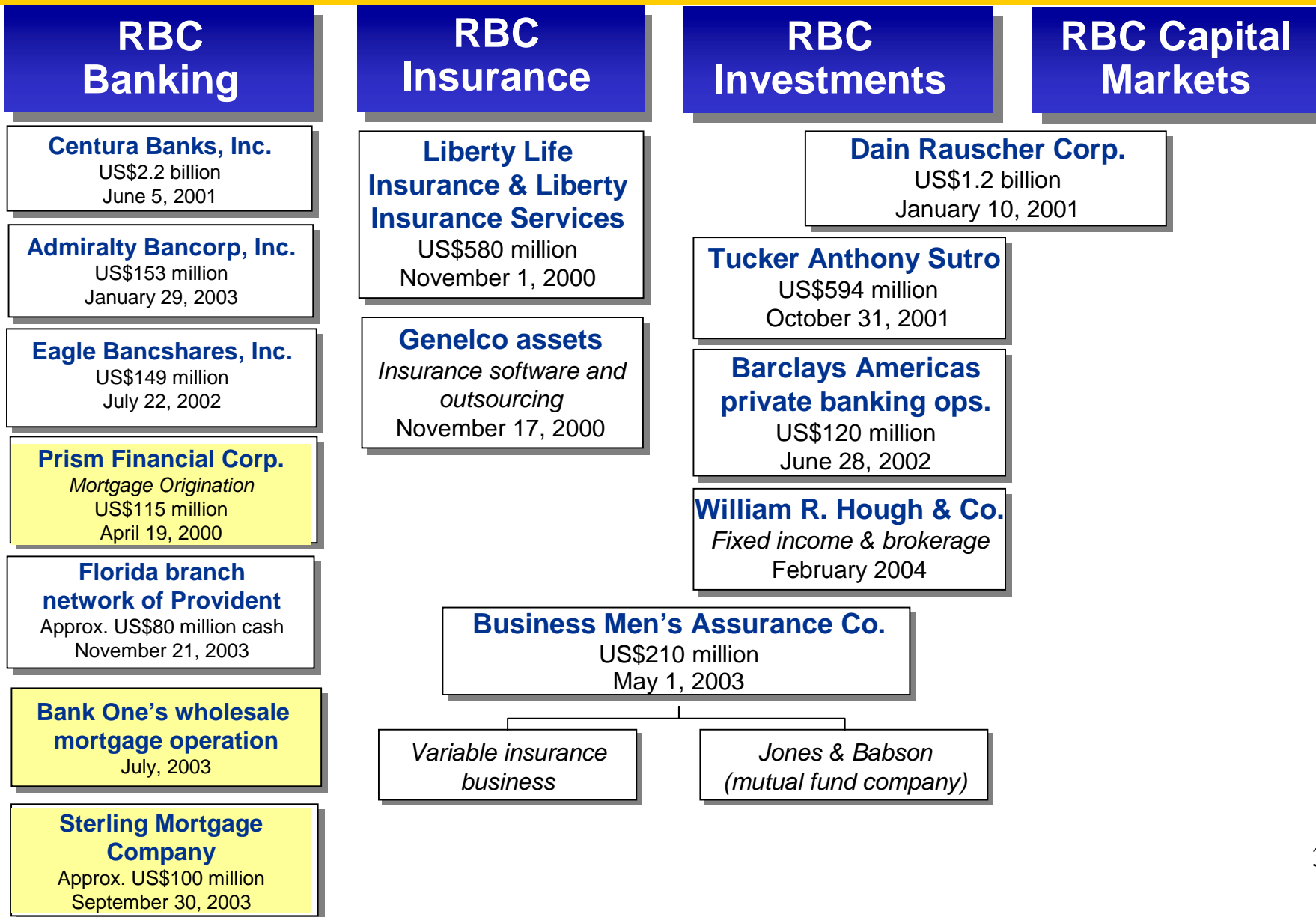
Transforming RBC Mortgage

*Presentation to Analysts and Institutional Investors
Toronto, March 30, 2004*

Opening Remarks

Gord Nixon
President and Chief Executive Officer
RBC Financial Group

Diversification of U.S. Businesses



Acquisition of Prism Financial Corp

- Acquired for US\$115MM in April 2000
- Was 11th largest retail US mortgage originator
- CAGR * (1996 to 1999)
 - ✓ Mortgage originations 108%
 - ✓ Total revenue 131%
- Good first building block in mortgage business
- Staked out small investment in low point in the market cycle

* *Compound Annual Growth Rate*

Acquisition of Sterling Capital Mortgage Company

- Acquired for US\$100MM in September 2003
- Attractive business model:
 - ✓ Higher proportion of purchase versus refinancings
 - ✓ Joint ventures with builders
 - ✓ Good technology platform
 - ✓ Strong management team
 - ✓ Complementary retail distribution network

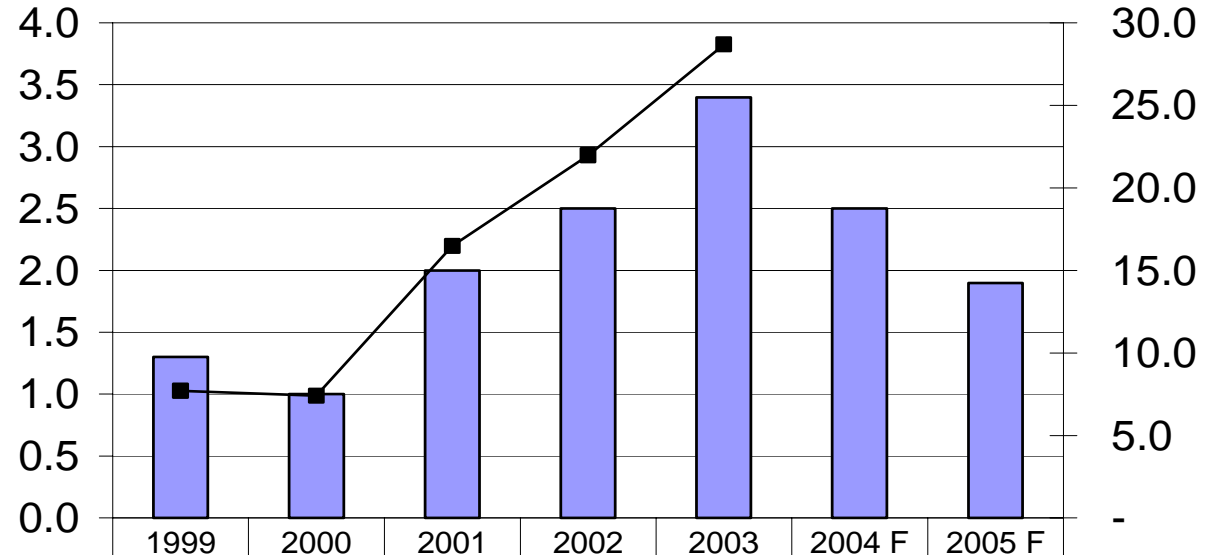
RBCM versus US Mortgage Industry

US\$ trillions – Mortgage Industry

Origination Volumes

US\$ billions – RBCM

Note: Industry amounts are based on calendar year (RBCM revenues & volumes based on fiscal year)



■ US Total Volume (US\$ trillions) *	1.3	1.0	2.0	2.5	3.4	2.5	1.9
—■ RBCM Total Volume ** (US\$ billions)	7.7	7.4	16.5	22.0	28.7	-	-
RBCM Revenues ** (US\$ millions)	151	150	139	164	173	-	-

- RBCM's 2004 origination volumes are expected to decline in line with industry trends
- In 2005, we are targeting to do better than the industry in the change in mortgage origination volumes over 2004

* Data source: Mortgage Bankers Association of America

** 1999 and 2000 revenue & volume amounts are based on Prism Mortgage Company financial statements prior to acquisition by RBC

Purpose of today's session

To discuss:

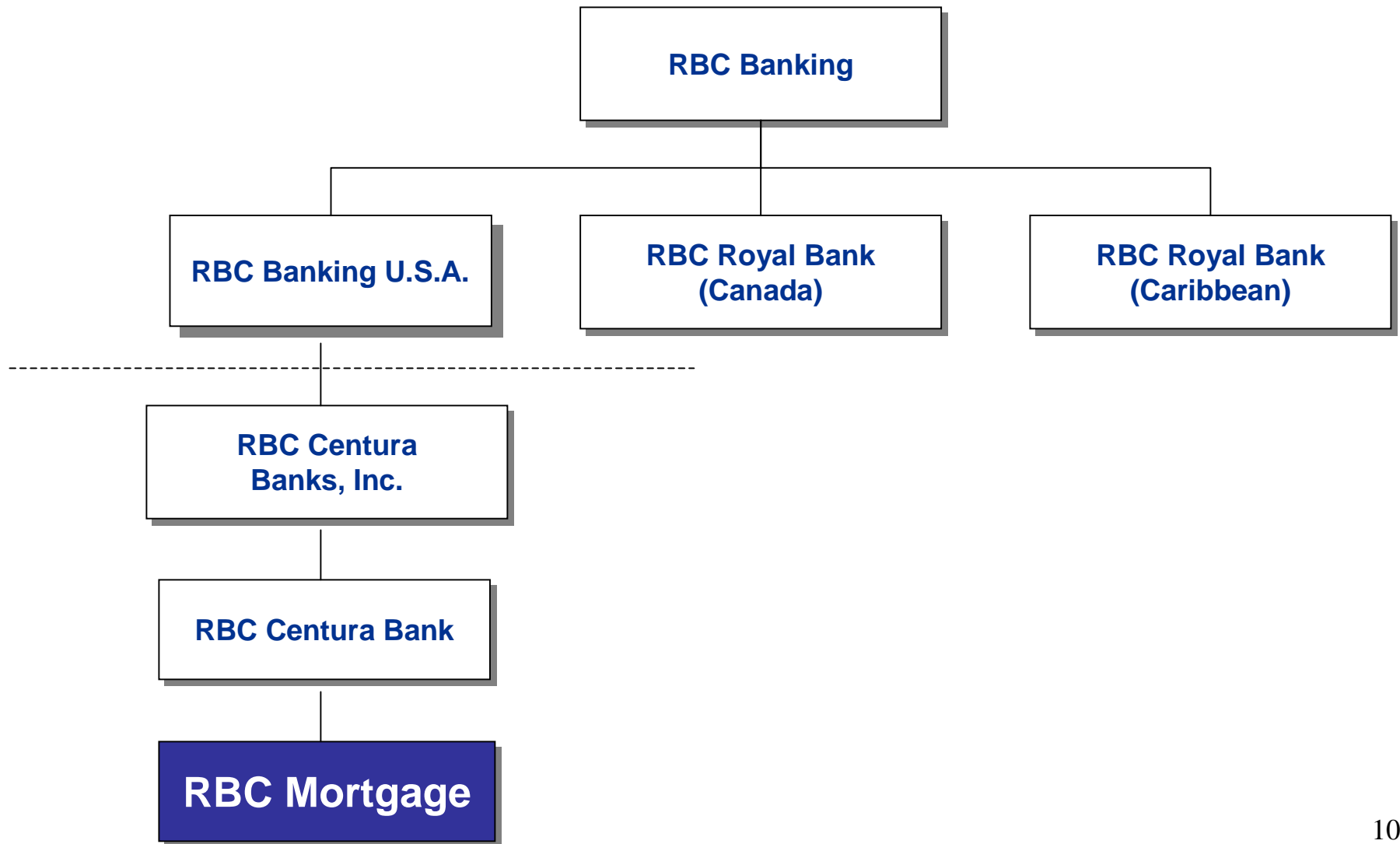
- How U.S. mortgage business works
- Why we encountered difficulties
- How we are fixing problems
- Future strategy
- What operating margins we are aspiring towards

- Business with potential for attractive returns – right products, processes, technology and people
- Does not require a lot of capital underpinning
- Sterling Capital's ROE 20%+ in 2003
- Potential for similar returns over long term
- RBC's Group Management Committee taking RBC Mortgage's performance seriously and committed to turning it around

RBC Mortgage Overview

Jim Rager
Vice Chairman
RBC Banking

RBC Banking Geographic Structure



Mortgage Originators in the U.S.

Mortgage Origination Volumes - 2003

(US\$ millions)

Rank	Company		Retail	Wholesale	Correspondent	Total
1	Wells Fargo Home Mortgage	\$	262,825	\$ 84,355	\$ 122,399	\$470,119
2	Washington Mutual	\$	154,382	\$ 95,241	\$ 185,767	\$435,391
3	Countrywide Financial Corp.	\$	114,717	\$ 97,948	\$ 222,199	\$434,864
4	Chase Home Finance	\$	90,579	\$ 65,536	\$ 128,141	\$284,257
5	Bank of America	\$	91,636	\$ 39,301	\$ -	\$130,937
6	ABN Amro Mortgage	\$	25,381	\$ 84,825	\$ 13,841	\$124,048
7	GMAC Residential Holdings	\$	58,109	\$ 3,188	\$ 53,158	\$114,455
8	CitiMortgage, Inc.	\$	37,386	\$ 24,527	\$ 46,520	\$108,433
9	National City Mortgage	\$	49,305	\$ 50,438	\$ 5,818	\$105,561
10	Cendant Mortgage	\$	72,850	\$ 4,542	\$ 6,309	\$83,701
RBC Mortgage ⁽¹⁾		\$	23,949	\$ 11,153	-	\$35,102
Rank			13th	18th	-	18th

(1) RBC Mortgage numbers include Sterling Capital Mortgage results for comparative purposes

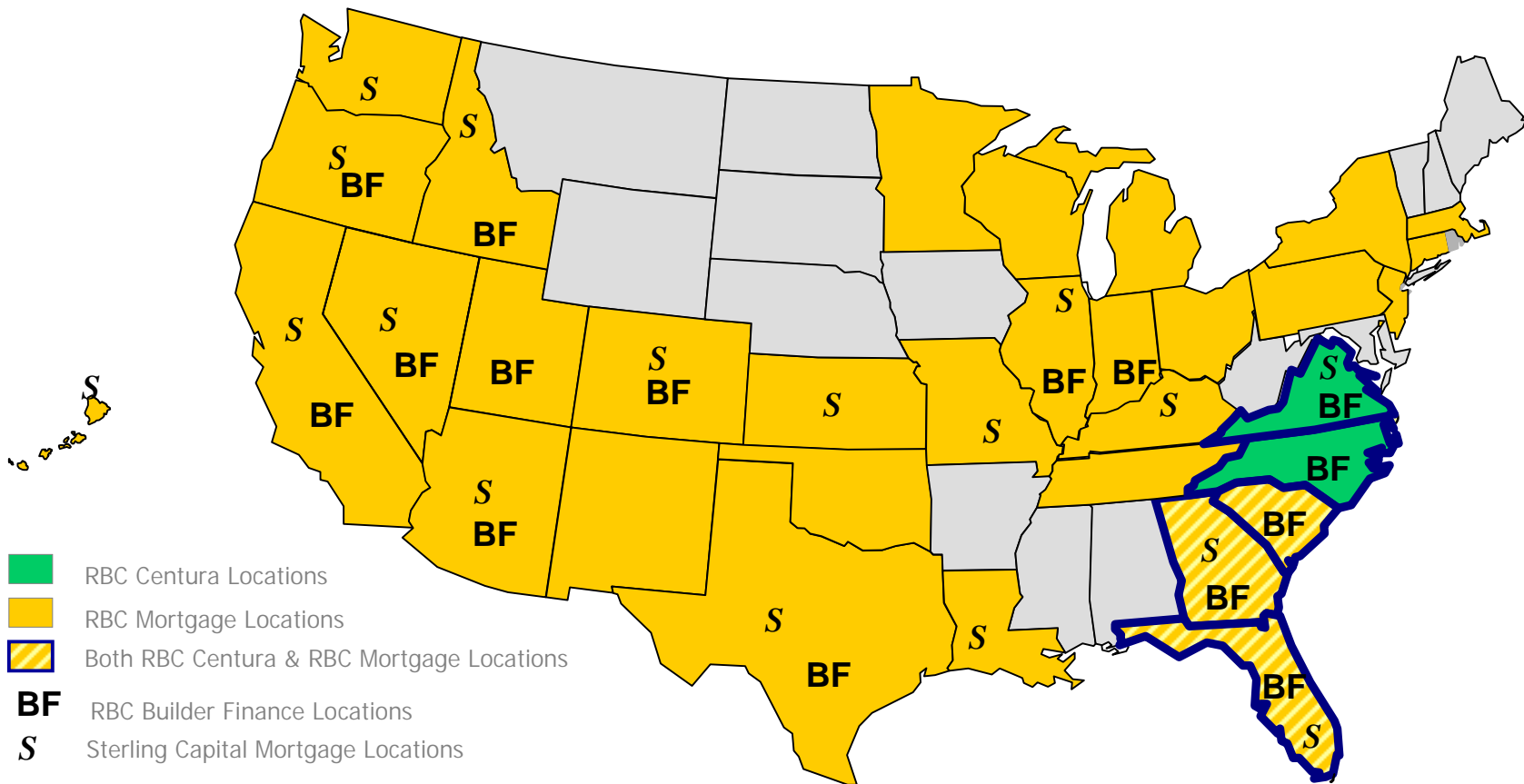
Source: National Mortgage News Annual Data Report 2003

Highlights

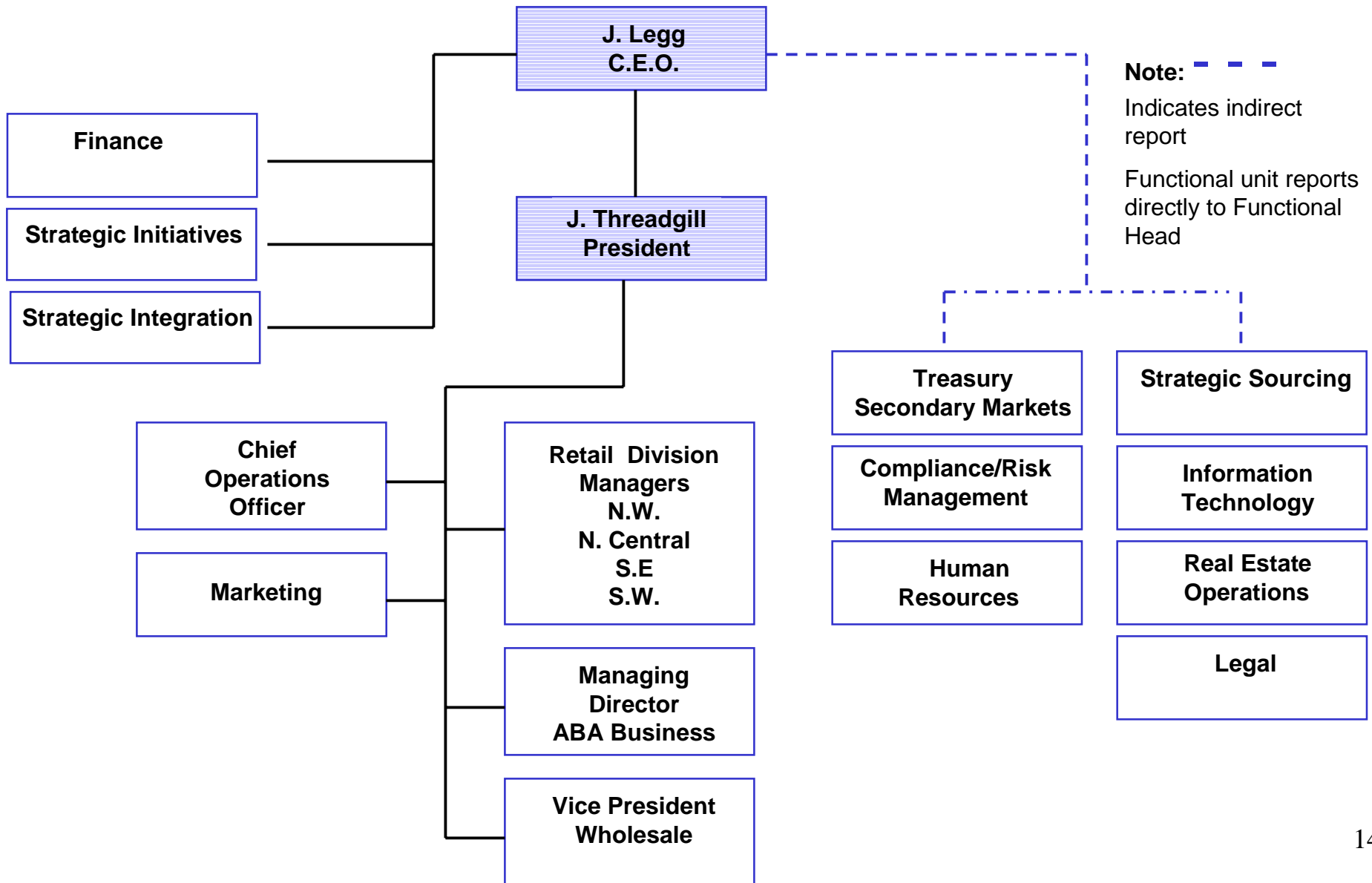
- Mortgage lender with lending capabilities in 50 states
- Unique market position
 - ✓ National presence
 - ✓ Broad distribution capabilities
 - ✓ Product breadth
 - ✓ Competitive rates

National Presence

- ✓ Nearly 200 retail branches in 35 states and licensed to do business in 50 states
- ✓ Over 1800 select independent mortgage brokers
- ✓ 15 joint ventures with builders and/or realtors



New Senior Management Team at RBC Mortgage



U.S. Mortgage Industry Overview

**Jon Legg
CEO
RBC Mortgage**

Common product types:

- ✓ Fannie Mae, Freddie Mac, Ginnie Mae: **30**, 25, 20, **15**, 10 year fixed rate
- ✓ Jumbo (Mortgages over \$333,700 for 2004)
- ✓ Adjustable Rate Mortgages (ARMs)
- ✓ Alt – A mortgages (streamlined for borrowers with good credit)
- ✓ Home Equity Lines of Credit (HELOCs) / 2nd Mortgages
- ✓ Products repayable at any time without penalty

New Purchases and Refinance

2 MAIN TYPES OF MORTGAGE TRANSACTIONS

NEW PURCHASES



Relationship Driven

- Realtors, Builders, Developers, Bankers

REFINANCINGS



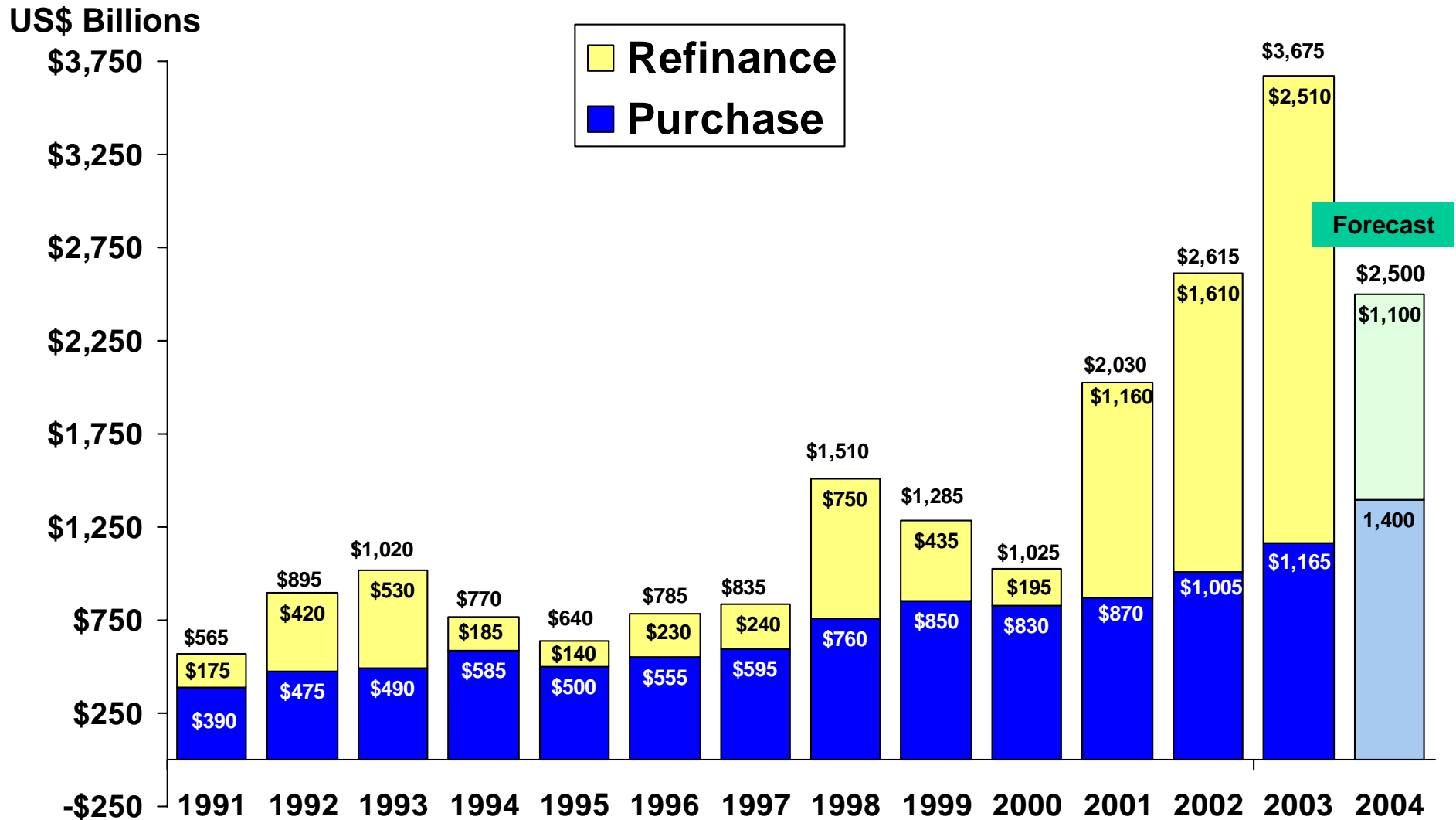
Rate Driven

- Direct Marketing, Client Referrals

PRIMARY SOURCES

U.S. Mortgage Industry Trend

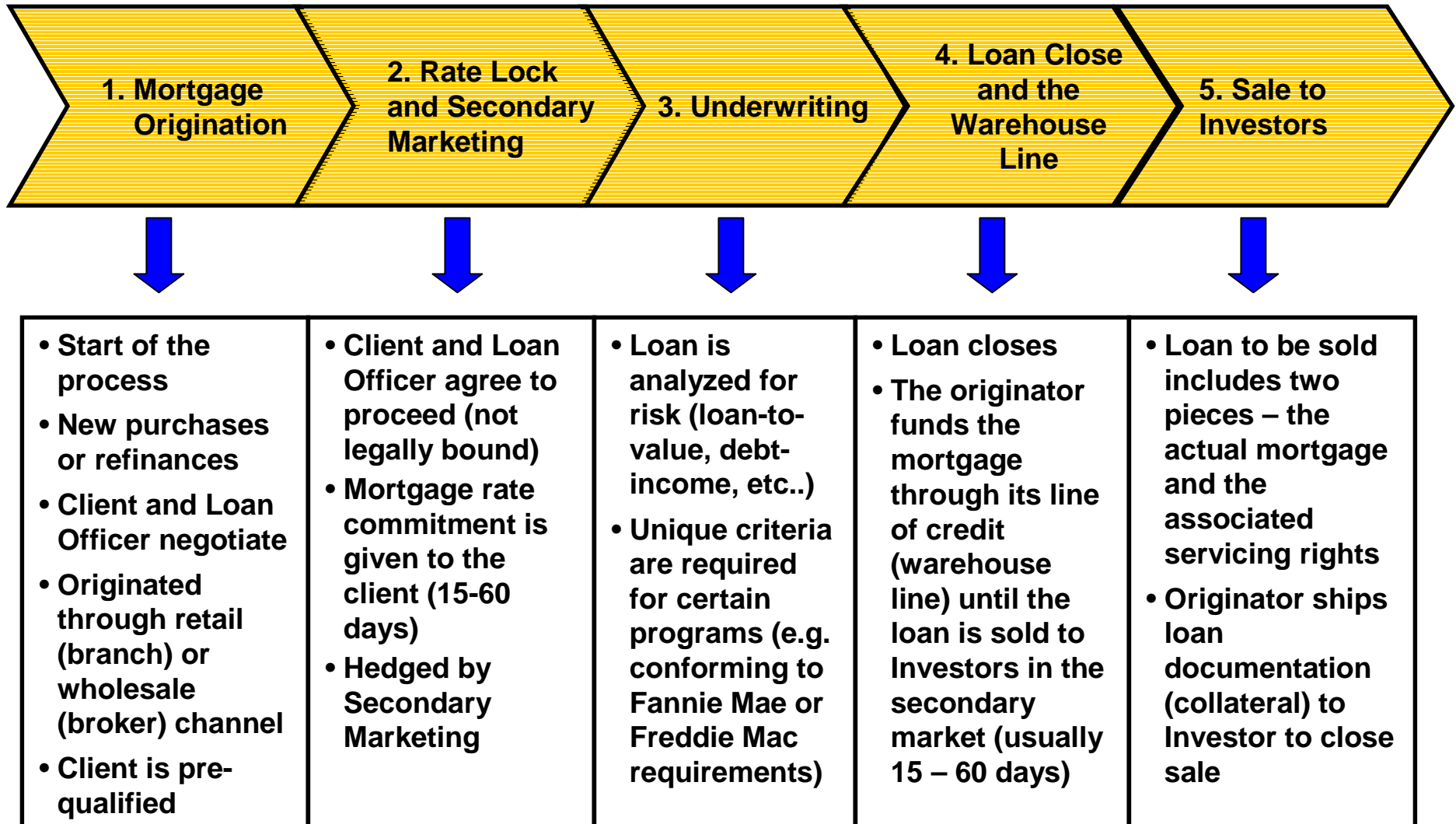
Refinance versus Purchase



* Data source: Mortgage Bankers Association of America



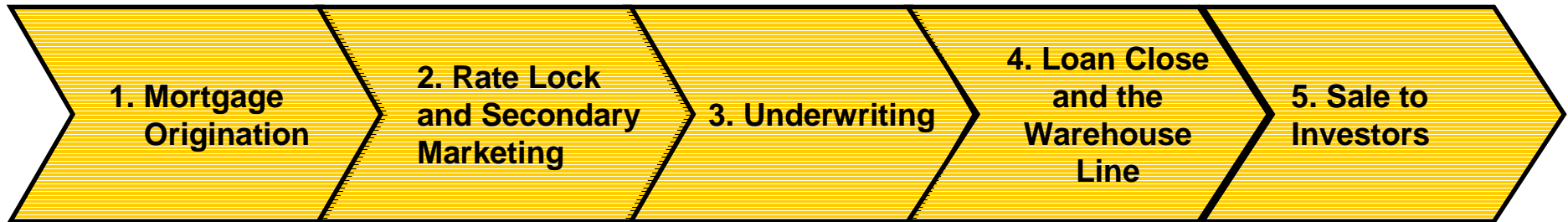
How Mortgage Banking Works in the U.S.



See Appendix for more details



How Money is Made in Mortgage Banking



- Hedges are entered into to ensure consistent margins between the time the loan is locked and the time the loan is sold to Investors – primarily using forward contracts and options
- Miscellaneous fee income
- Quantitative Risk Management (QRM) software is the industry standard used by the majority of the leading U.S. mortgage companies to help manage interest rate risk

- Interest income is earned on the spread between the rate of the funded mortgage while holding the mortgage on the warehouse line, and the interest rate paid on the warehouse line (funding cost)
- Non-Interest Income is generated through the collection of one-time fees and annual captive reinsurance premiums
- Servicing revenues are also received (non-interest income) while holding the mortgage

- Two sources of Non-Interest Income are: (1) Gain/Loss on sale of Mortgage and (2) the sale of servicing rights (key income generator)
- Income is dependent on sale price (determined by current interest rates, product sold, yield (mortgage rate charged), delivery, and hedge costs)

RBC Mortgage Revenues

<i>US\$ millions</i>	Q1/04	Q1/03	Variance Q1/04 vs Q1/03
<i>RBC Mortgage revenue</i>	27	53	(26)
<i>Variance due to:</i>			
Origination and warehouse volumes	-	-	(28)
Hedging costs	-	-	(9)
Sterling Capital Mortgage acquisition & other	-	-	11
Total variance			(26)



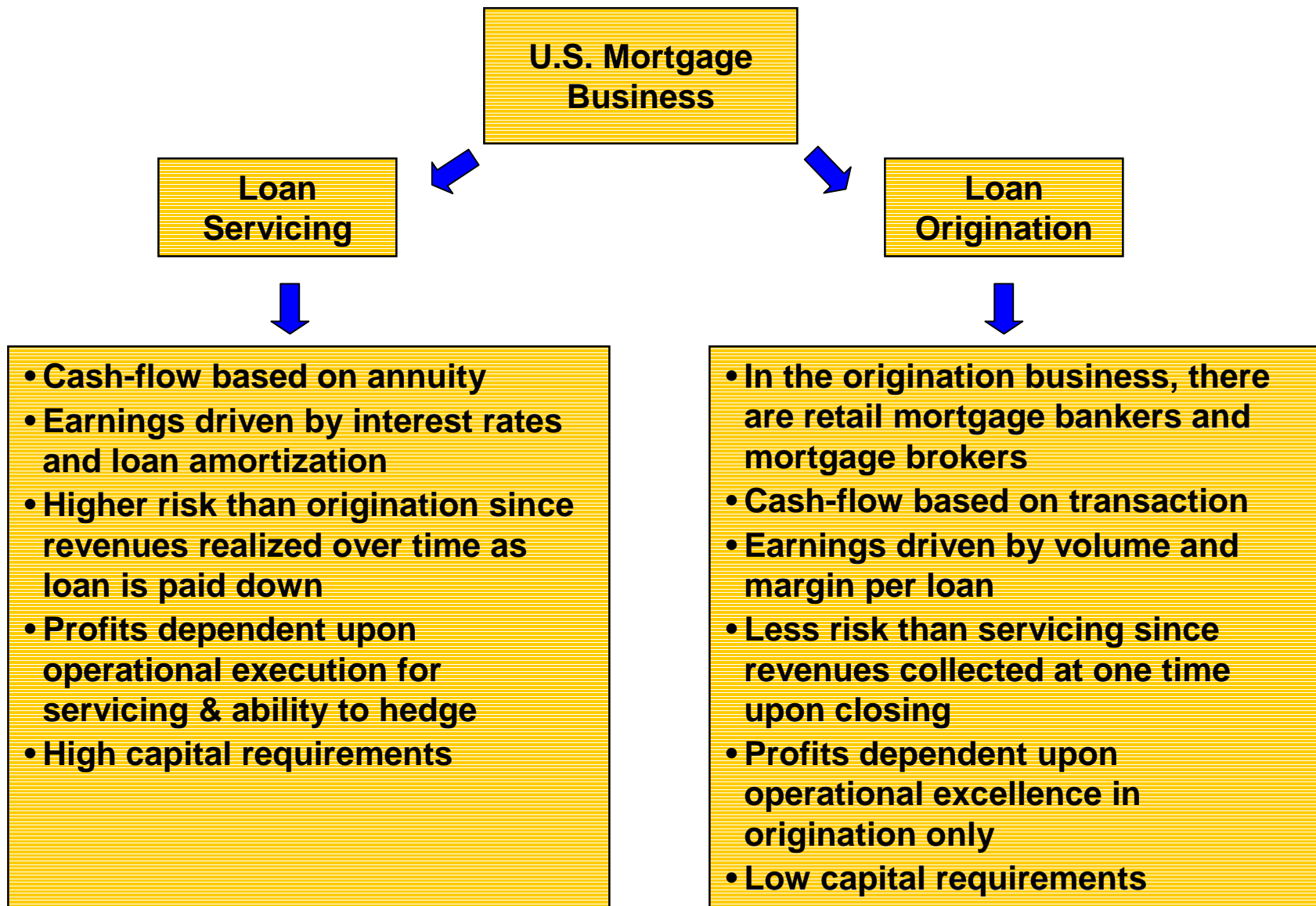
RBC Mortgage Quarterly Revenues & Origination Volumes

<i>RBC Mortgage US \$</i>	Q1/04	Q4/03	Q3/03	Q2/03	Q1/03
Origination volumes (\$ billions)	\$3.5	\$6.3	\$7.9	\$7.2	\$7.3
Total revenues (\$ millions)	\$27	\$6	\$61	\$52	\$53

RBC Mortgage Challenges and Solutions

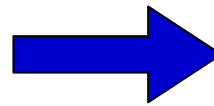
**Jonathan Threadgill
President - RBC Mortgage**

Mortgage Industry Diversion Originators vs. Aggregators



High Volumes Revealed Legacy RBC Mortgage Issues

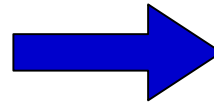
Legacy RBC Mortgage



The New RBC Mortgage

Operations

- Bottlenecks in back-office
- Late delivery of loan files to Investors
- Poor loan documentation

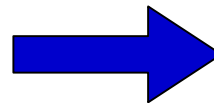


Operations

- Revising loan delivery policies and guidelines
- Streamlining processes and addressing loan documentation issues, leveraging new business model

Branch Network

- Independent broker mindset in retail branches
- Lack of useful tools for Loan Officers

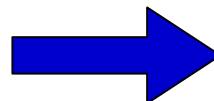


Branch Network

- Aligning with RBCM through Branch Managers
- Common loan pricing and increasing service standards
- Improving systems for Loan Officers

Strategy

- Compete on price
- Centralized strategy with multiple hand-offs



Strategy

- Competing on service
- Localization strategy eliminating hand-offs and increasing accountability

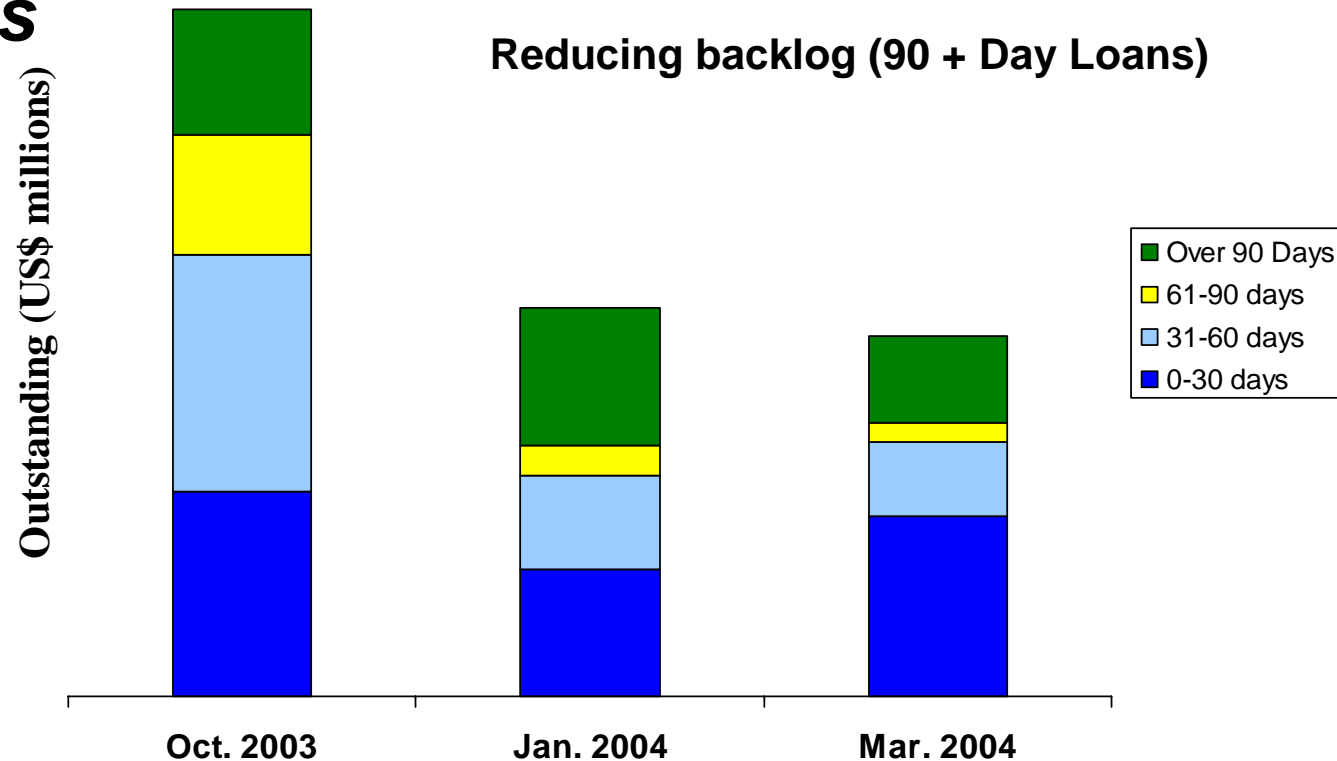
Operations

- Loan volume increased in 2003 across the industry as record high refinances and new purchases were fuelled by historically low interest rates
- Loan files accumulated as large volumes resulted in poor loan documentation
- Poor loan documentation and back office execution resulted in late and incomplete delivery of loans to Investors
- Other operational challenges are being addressed as identified

Impact

- Loans remained on the warehouse line for a longer time period resulting in increased hedge (roll) costs
- Investors purchased loans at a discount (decreasing RBC Mortgage spread) and/or returned loans entirely

Operations



Completed to date

- Re-aligning several activities to Houston to allow Chicago staff to focus on clearing the backlog
- Segmenting post-close initiative from day to day new work so as not to impact new volumes, clients and/or investors
- Implementing back office redesign & technology to improve file management

Results

- Since January 2004, significantly decreased loans on the warehouse line that were > 90 days

Branch Network

Issues in 2003

- Loan officers were originating record loan volumes while lacking tools and support resulting in problems in loan files
- Decisions on pricing and service levels were independently made by loan officers not acting in RBC Mortgage's best interest
- Competing solely on price
- RBC Mortgage Branch Network was acting as broker while RBC Mortgage was operating as a full retail mortgage network
- Branch Managers were compensated on volume, not profitability

Impact

- Lower margins from branch operations

Branch Network

Restructure Sales Force

- Increasing Branch Manager alignment with RBC Mortgage through a revised compensation program based on profitability
- The Compensation Program for Loans Officers is being balanced to tie 25% of compensation to operating risk metrics (e.g. Quality Control)
- Completing a restructuring of the sales force including adding 400-500 new Mortgage Loans Officers (MLOs) and eliminating 200 low performing MLOs
- Clear communication, monitoring, and tracking of pricing exceptions

Strategy

Issues in 2003

- A highly centralized documentation process with fragmented systems resulted in processing delays and duplication of work
- Competed primarily on price

Impact

- Loan officers lacked control of the process and therefore lacked accountability for customer satisfaction
- Lower margins as a result of price focus

Strategy

Best Practices

- Combining the best of both RBC Mortgage and Sterling Capital Mortgage
- Adopting the Sterling Business Model “localness” and technology platform
- Continuing to build upon the strength of Sterling Capital’s senior management team, in combination with RBC Mortgage’s team
- Working and collaborating with RBC sister companies in the U.S.

Our Strategic Plan is Outlined on the Next Few Slides...

RBC Mortgage's vision is to be a top origination company with a national presence across the U.S.

RBC Mortgage is focused on 3 origination channels:

- **Retail**

- ✓ RBCM employees sell mortgages directly to consumers
- ✓ Nearly 200 branches in 35 states and licensed to do business in 50 states
- ✓ Mortgages originated include proprietary RBCM products and brokered mortgages (products from other financial institutions)

- **Wholesale**

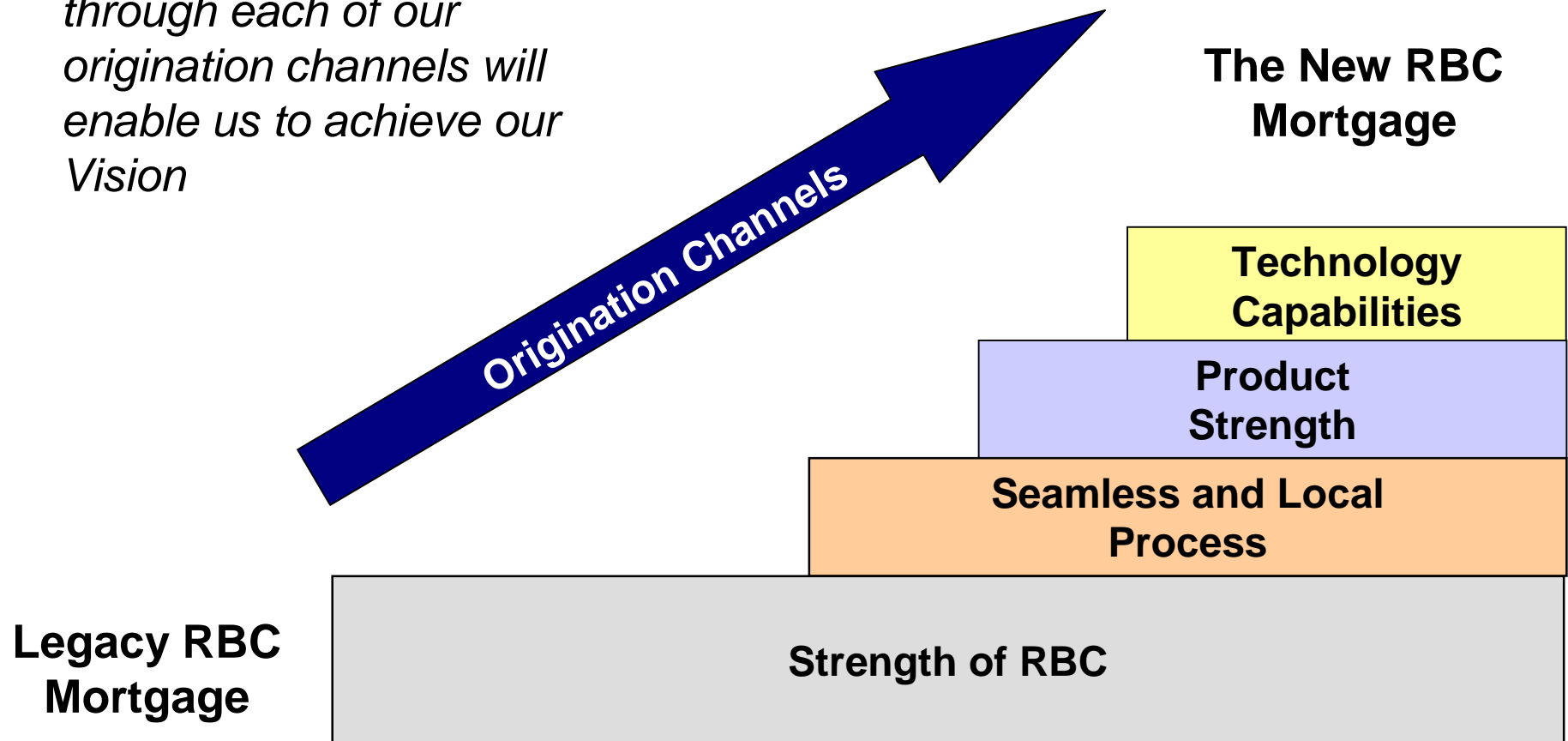
- ✓ Over 1800 select independent mortgage brokers
- ✓ Sell RBC Mortgages to consumers in high growth areas

- **Affiliated Business Arrangements**

- ✓ 15 joint ventures with credible builders and/or realtors
- ✓ Originate RBC Mortgages to builder/realtor clients

Foundation to Build the New RBC Mortgage - 4 Pillars

Focus on the 4 Pillars through each of our origination channels will enable us to achieve our Vision



Strength of RBC

- RBC Brand recognition for customers and loan officers emphasizes stability
- Borrowing ability for RBCM Warehouse Line (size, rate)
- Cross enterprise opportunities with RBC Centura (HELOC), RBC Banking (Snowbirds), and RBC Dain Rauscher

Local Process

- Localized strategy means that customers get better service, faster
- Attract high performing Loan Officers by giving them control over the process

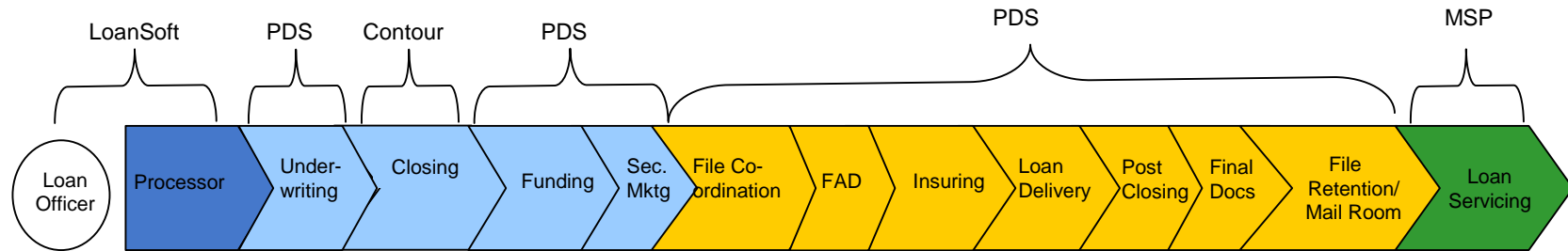
Products

- 12 proprietary products with 4 to 5 variances in each product
- Designed for both new purchases and refinances (refi's)

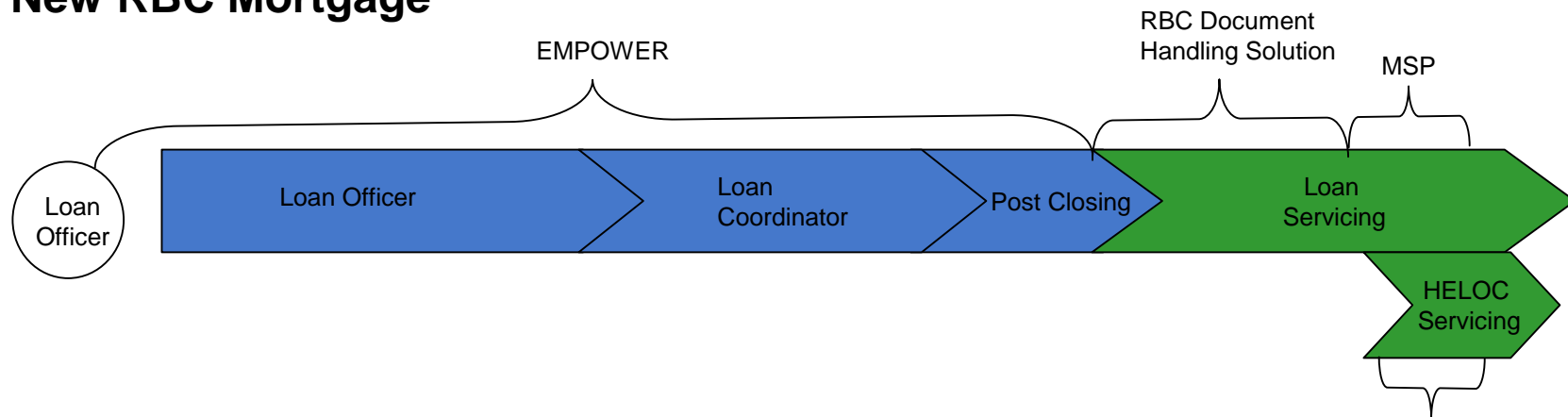
Technology

- Leverage Empower software (next slide)

Legacy RBC Mortgage



The New RBC Mortgage



LoanSoft, PDS, Contour, and MSP are systems that interface with each other in the process of moving a mortgage from origination to investor sale

Strength of RBC

- Brand name exemplifies stability which is highly important in the Broker community, enabling RBC Mortgage to target specific Brokers in high growth markets
- Focus on higher growth, larger metropolitan locations with above average growth potential and a high concentration of brokers, leveraging existing presence where possible (e.g. Hawaii)
- Stringent controls on the broker approval process (target brokers with solid business practices)

Local Process

- Seamless handoff between Broker and RBC Mortgage wholesale operation center
- Leverage best practices to increase consistency and accuracy and identify areas for possible consolidation

Products

- Leverage RBC balance sheet to create signature products that differentiates us from other wholesalers
- Enhance product awareness for high margin offerings
- Partner with RBC Centura to increase Home Equity Line of Credit (HELOC) production

Technology

- Leverage technology to reduce costs, increase compliance capabilities, speed, and be more user friendly for brokers (front-end workbench and Empower rollout)



The New RBC Mortgage Affiliated Business Arrangements (ABAs)

Strength of RBC

- The brand name enables RBC Mortgage to compete with other leading mortgage originators for joint ventures with major clients
- Synergies with RBC Builder Finance – full service construction/development loan lender
- Focus on targeted areas: Houston, Dallas, Phoenix, Las Vegas, Denver, San Diego / Southern California, Sacramento / Walnut Creek, Chicago
- Even after sharing revenues between RBC and the partner in the joint venture, ABA is our highest profit margin business

Local Process

- Builders enjoy advanced technology to deliver speed
- Loan officer dedicated to the builder

Products

- Able to offer the full range of RBC Mortgage products to clients

Technology

- Point-of-sale capabilities
- Software links, special loan programs make the application transparent to the client

The New RBC Mortgage Potential for Cost Savings

Future efficiencies to come from:

- Empower technology roll-out
- Reducing size of back-log (over 90 days)
- RBC's national contracts through Strategic Sourcing for courier, office supplies, and travel
- Centralizing expenses and approvals in RBC Mortgage Corporate Head Office with each request needing approval
- Approval of all travel expenses, professional services, dues and donations
- Continuing to identify opportunities for further reductions
- Extensive monitoring and tracking of expenses

Business	Targeted Margin (Basis Points) ⁽¹⁾	Volume ⁽²⁾	USD \$MM
Retail/ABA	50	13 Billion	64.0
Wholesale	20	7 Billion	14.0
Total Branch Operations ⁽³⁾	39	20 Billion	78.0
Secondary Marketing	15		30.0
Warehouse Spread	25		50.0
Captive Reinsurance	03		6.0
Total Margin	82		164.0

- (1) Assumes a stable and normal interest rate environment and based on Sterling historical performance and assessment of potential margins
- (2) Volume used is sample only for illustrative purposes
- (3) Margins are net operating margins after direct costs (e.g. salary, premises, GSA expense, etc.) but prior to corporate NIE allocation

RBC Mortgage Keys to Success

We know that for RBC Mortgage:



- **“Localness” Strategy**
 - ✓ Customers get better service, faster
 - ✓ Attract high performing Loan Officers by giving them control
- Distribution through our channels – Retail, Wholesale, and ABA
- Organic growth
- Product enhancement leveraging the power of RBC



Differentiating ourselves from the competition:

- **Increase margins through**
 - ✓ Better pricing
 - ✓ Improved compensation
 - ✓ Excellent delivery
- Focus on origination only
- Leverage technology to move toward straight through processing and mitigate risk
- Shared Vision and Common Values

The New RBC Mortgage

*More than a Better Mortgage...
a Better Experience*

- Not just a better mortgage
- A better experience for all of our stakeholders
 - ✓ Customers
 - ✓ Employees
 - ✓ Shareholders
 - ✓ Industry partners

Appendices

MBA Mortgage Finance Forecast

MBA Mortgage Finance Forecast

March 15, 2004



	2003		2004				2005		2003	2004	2005
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Housing Measures (Thous)											
Housing Starts	1,884	2,033	1,891	1,869	1,816	1,755	1,680	1,682	1,848	1,833	1,651
Single-Family	1,523	1,661	1,535	1,526	1,461	1,411	1,349	1,337	1,500	1,483	1,316
Two or More	361	372	357	343	354	343	331	344	348	349	335
Home Sales											
Existing Homes	6,420	6,297	5,890	5,853	5,970	5,865	5,632	5,556	6,101	5,894	5,568
New Homes	1,155	1,128	1,046	1,071	1,075	1,019	956	979	1,091	1,053	974
Median Price of Existing Homes (Thous \$)	176.9	172.2	170.2	177.2	180.3	176.6	177.4	183.7	169.6	176.1	183.0
Median Price of New Homes (Thous \$)	190.9	198.2	194.0	199.4	197.6	204.9	202.4	206.3	191.2	199.0	206.0
Interest Rates (%)											
30-Year Fixed Mortgage	6.0	5.9	5.5	5.4	5.6	5.9	6.0	6.2	5.8	5.6	6.3
10-Year Treasury Yield	4.2	4.3	4.0	3.9	4.1	4.3	4.4	4.6	4.0	4.1	4.7
1-Year Treasury ARM	3.7	3.8	3.6	3.6	3.7	3.8	4.0	4.1	3.8	3.7	4.2
1-Year Treasury Yield	1.2	1.3	1.1	1.1	1.2	1.4	1.6	1.7	1.2	1.2	2.0
Mortgage Originations											
Total 1- to 4-Family (Bill \$)	1,199	633	543	751	709	486	388	552	3,810	2,489	1,947
Refinance Share (%)	68	49	51	49	45	35	30	30	66	46	30
ARM Share (%)	18	27	30	29	29	28	30	30	19	29	30

Housing starts and home sales are seasonally adjusted at annual rate.

Total 1- to 4-family originations and refinance share are MBA estimates. These exclude second mortgages and home equity loans.

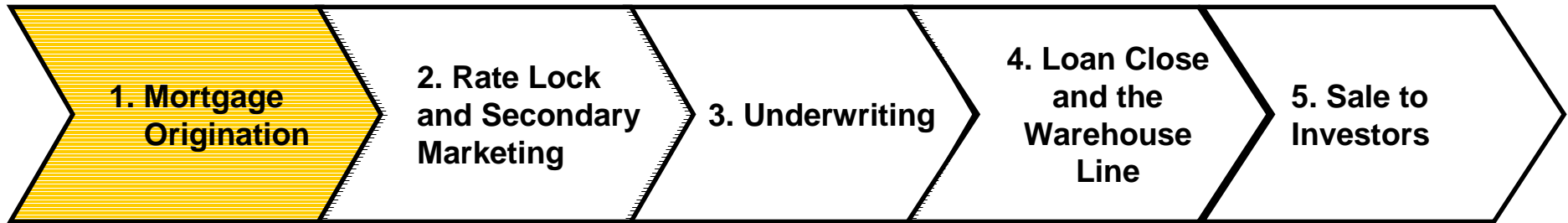
Refinance share is percent of total dollar volume of closed loans.

ARM share is percent of total number of closed conventional purchase loans.

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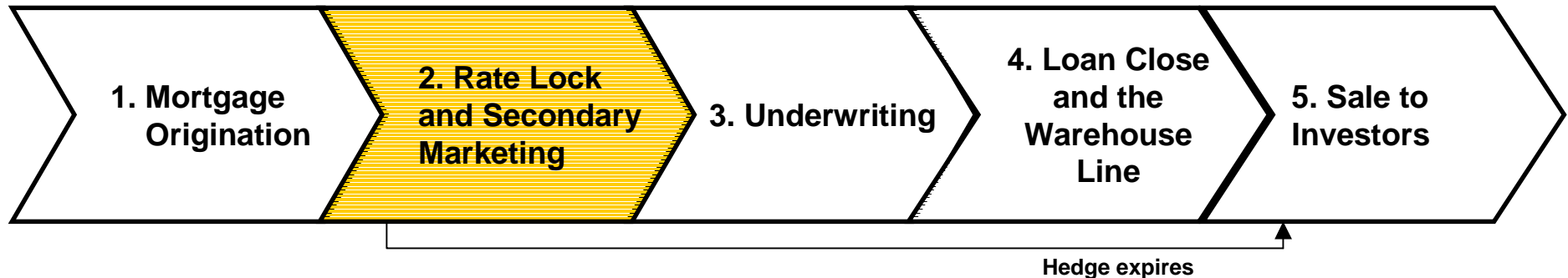
THE HISTORICAL DATA AND PROJECTIONS ARE PROVIDED "AS IS" WITH NO WARRANTIES OF ANY KIND.

How Mortgage Banking Works in the U.S.



- Start of the process
- Originated through retail (loan officer in branch) or wholesale (broker) channel
- Client and Loan Officer negotiate
- New purchases or refinances
- Client is pre-qualified
- *Miscellaneous fee income (application fees, credit reports, etc..) recorded in non-interest income*

How Mortgage Banking Works in the U.S.



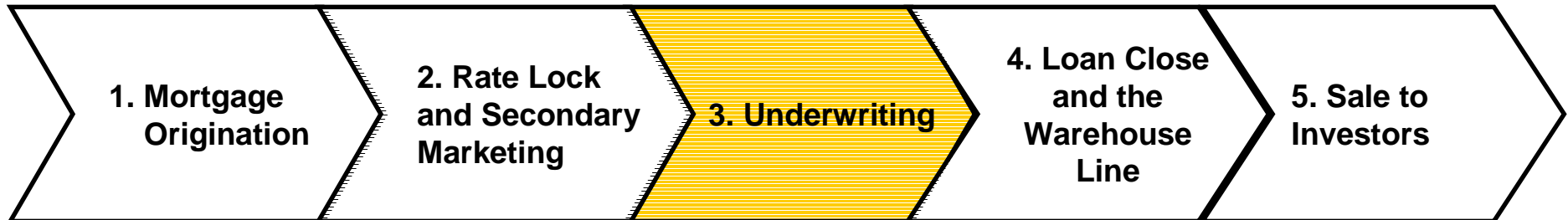
- Client and Loan Officer agree to proceed (not legally bound).
- Mortgage rate commitment is given to the client (15-60 days). An interest rate put option to enter in a mortgage at a preset rate is written to the client (short put). The rate lock is treated as a derivative.
- Hedged by Secondary Marketing using QRM.
- **From the rate lock to the time that the loan is sold, the originator is exposed to interest rate risk.** Hedges are used to minimize the risk of impairment loss in the warehouse loan & commitment portfolios due to changes in the fair market value as a result of changes in interest rates.

The risks that must be hedged can be classified into 2 segments:

- 1) Risks related to rate locks:** Originators hedge rate locks with forward sales of mortgages as well as derivatives. Hedging the option risk in rate locks requires taking offsetting positions on some other derivative contracts. As the mortgage option market is relatively illiquid, recourse to other option markets is common, giving rise to basis risk. In addition, some of the rate locks are for products for which no liquid derivative exists, which again gives rise to exposures related to cross hedging.
- 2) Risks related to the future sale of the mortgage loans to investors:** In order to minimize exposure the impact of interest rate movements can have on the value of the loans, secondary market usually sells forward a certain amount of mortgages (app. 70% of rate commitments) based on historical pull-through (i.e closing rate) per type of product, maturity and other factors. Some of the mortgages are sold on a best effort basis, thus eliminating risk.

No revenue earned

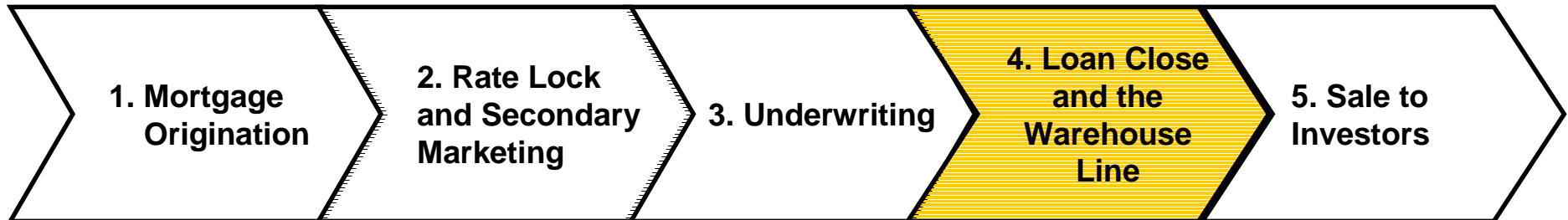
How Mortgage Banking Works in the U.S.



- Loan is analyzed for risk (loan-to-value, debt-income, etc..)
- Unique criteria are required for certain programs (e.g. conforming to Fannie Mae or Freddie Mac requirements)

No revenue earned

How Mortgage Banking Works in the U.S.



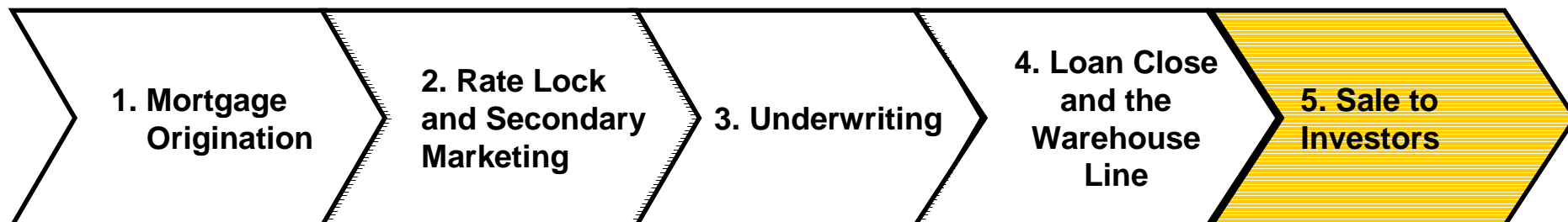
Commitment to client expires or loan closes

- *Non-interest income is earned through the collection of closing fees and captive reinsurance premiums*

The originator funds the mortgage through its line of credit (warehouse line) until the loan is sold to Investors in the secondary market (usually 15 – 60 days)

- *From funding, interest income is earned on the spread between the rate of the funded mortgage while holding the mortgage on the warehouse line, and the interest rate paid on the warehouse line (funding cost)*
- *Servicing revenues while the mortgage is on the warehouse line*

How Mortgage Banking Works in the U.S.



The sale includes two different components: 1) the mortgage and 2) the mortgage servicing rights (“MSR”).

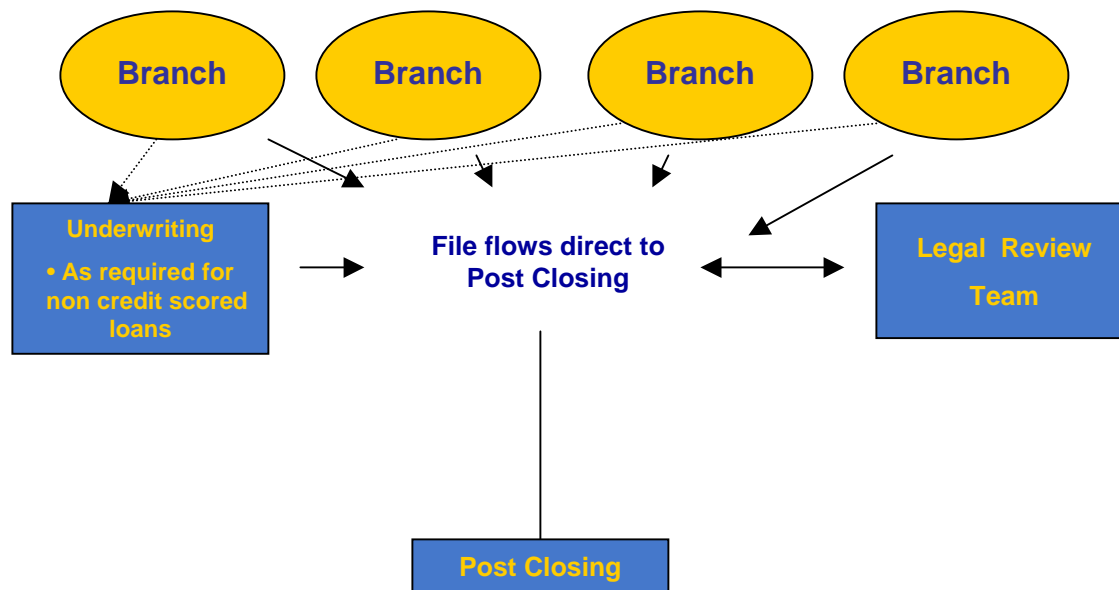
1) Mortgages sold forward in “step 2” (locked in spread) should now be delivered as hedge expires. If unable to deliver (either documentation deficiencies or backlog), the hedge must be rolled over, impacting negatively non-interest income earned through secondary marketing execution. Loans with minor deficiencies could be sold at a discount, decreasing non-interest income earned through secondary marketing execution.

A potential exposure risk could also arise at this point as a different percentage (higher or lower) of the committed mortgages could end up being effectively closed, thus resulting in two scenarios:

- ✓ **Having to sell more than actually closing (lower close rate/”over-hedged”) through a cash settlement impacting non-interest income earned through secondary marketing execution.**
- ✓ **Selling less than actually closed (higher closing rate/”under-hedged”) incurring interest rate risk and gain or loss on sale impacting non-interest income earned through secondary marketing execution.**

2) *The MSR could either be sold or retained for a servicing company. If sold, it is recognized as a gain in non-interest income through secondary marketing execution. If kept, it would be capitalized on the balance sheet.*

Retail Model



BRANCH

- Loan Officers and Loan Coordinators responsible for processing, underwriting, closing and funding file through Empower, leveraging legal review team through system

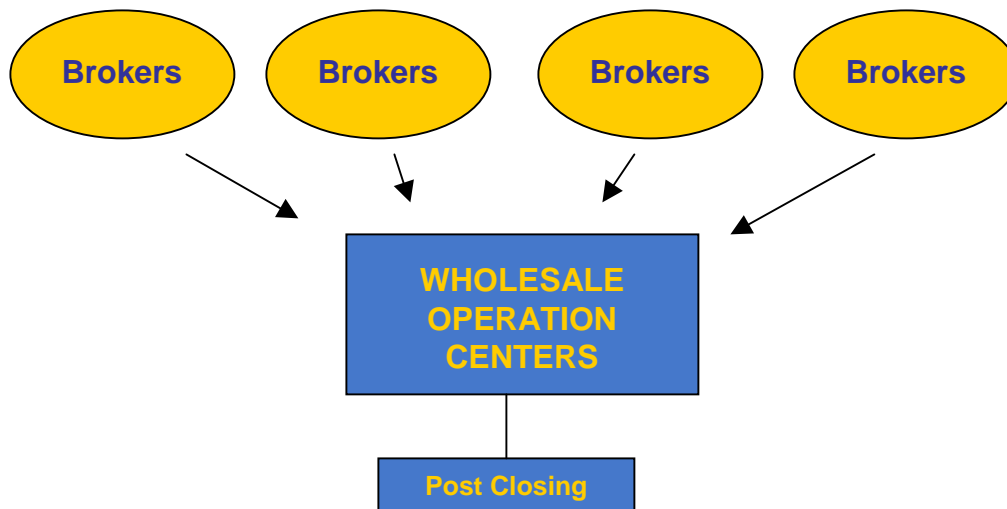
Operational Support

- Division, Regional and Branch Managers accountable for total unit including operations and operational risk.
- Division & Regional Operations Managers responsible for:
 - Volume
 - Staff
 - Training
 - Issues
 - Systems
 - Policies and procedures

Operational Risk Support (MICR)

- Regional Operations Risk Advisors
- Support to branches, post closing and servicing platforms
 - Delegation of Authorities
 - Privacy
 - Policies / Procedures
 - Fraud
 - Loan Quality
 - Support to Account Executive, Operations Centers and Post Closing/ Servicing sites

Wholesale Model



Operational Support

- Head of Wholesale division accountable for overall business, working in conjunction with National Wholesale Operations Manager to oversee Wholesale Ops Centers
- Operations Center Managers responsible for:
 - Volumes
 - Processes
 - Training
 - Staffing
 - Measures & Metrics
 - Loan Quality
 - Policy Implementation

Operational Risk Support (MICR)

- Regional Operations Risk Advisors
 - Delegation of Authorities
 - Privacy
 - Policies / Procedures
 - Fraud
 - Loan Quality
 - Support to Account Executive, Operations Centers and Post Closing/ Servicing sites